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# FOREIGN INVESTMENT REVIEW

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A journal on investment conditions in

## CANADA

Spring 1979 Vol. 2, No. 2



Canada's coal industry

European investments in Canada

Small business in Canada

# FOREIGN INVESTMENT REVIEW

## Foreign Investment REVIEW

a journal on investment conditions in  
Canada

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# FOREIGN INVESTMENT REVIEW

CONTENTS

Volume 2, Number 2

Spring 1979

---

2 News briefs

---

**Articles**

4 An introduction to Canada's coal industry  
By Alan Darisse

---

9 **European investment in Canada:**  
West European investment  
by Gilles Gratton

---

14 Soviet and East European investment  
By Carl H. McMillan

---

17 **Canadian participation in foreign-owned businesses in Canada:**  
Participation in management  
By Frank Swedlove

---

19 Participation in equity  
By Radek Bandzierz

---

21 Small business in Canada

---

24 **Capital investment projects in Canada**

---

27 **Incentives to industry**  
A summary of the major federal incentive programs for industry

---

30 **Statistical tables**  
Updated figures of FIRA cases including acquisitions and new businesses  
by industry sector and investor's country of origin

---

32 **Books**

---

## Industrial Strategy

The Prime Minister of Canada, Pierre Elliot Trudeau, announced in November the creation of the Board of Economic Development Ministers and the nomination of its first president, Mr. Robert K. Andras. The Prime Minister said that the creation of this new portfolio represented a significant change in the organization of the Cabinet and had as its objective to concentrate and consolidate efforts to encourage economic development in Canada. This step followed last summer's announced government spending cuts and re-ordering of priorities the stated objective of which was to stimulate industrial growth. The creation of this new economic portfolio, the high status it has been given, and the establishment of a ministerial committee were all steps aimed at coordinating existing and forthcoming economic policies developed by different departments, as well as improving the performance of their industrial programs and services. The first task of the Board was to ensure the successful conclusion of the consultation with the provincial governments and representatives of business and labour, which began in February.

At their February 1978 conference the federal and provincial first ministers concluded that it was time that Canada take a hard look at its industry and evaluate its strengths and weaknesses in order to improve its international competitiveness and productivity. Most significant was the first ministers' agreement to "seek out the active involvement of the private sector (business and labour) in federal-provincial discussions on specific development programs tailored to the . . . requirements of each of the manufacturing sectors." As a result, task force committees were established for each of the 23 industry sectors identified (see box).

This consultative effort, under government auspices, was an historical achievement in that it was the first time that business and labour worked jointly on major economic problems and developed specific recommendations. Though there were some disagreements, business and labour found themselves agreeing on more fundamental issues than previously thought possible.

By July 1978 all 23 committees had submitted their reports and a Second Tier Committee, composed of 12 members representing government, business and labour, was established to identify the

issues which transcended all the reports. By October the Second Tier Committee had submitted its report in which nine such issues were identified. They were the following: trade and multilateral trade negotiations; manpower and labour relations; taxation, research and development; energy; transportation costs; regional development; government purchasing; and the rationalization of Canadian industry. Among other things, the Second Tier Committee recommended:

- that the formation of consortia be encouraged to profit from export opportunities;
- that manpower funding should be redirected to "on the job" training;
- that corporate taxation be evaluated with international competitiveness in mind;
- that government R & D assistance be in the form of tax measures (write-offs and tax credits) or shared-cost grant programs; and
- that industrial rationalization only be undertaken after considering its effect on employment, industrial efficiency, research and development, balance of payments and Canadian ownership.

## Capital spending forecast

Business capital expenditure in Canada is likely to increase substantially over the next few years, according to two recent surveys of investment intentions.

The first survey, which was carried out by the Canadian Department of Industry, Trade and Commerce, indicates that the 300 largest firms in Canada will spend almost \$22 billion on plant and equipment in 1979. This would be an increase of about \$3 billion over investments forecast for 1978. The 300 firms in the survey account for 60 percent of non-agricultural business outlays in Canada.

The manufacturing sector will show the greatest increase (22 percent) in 1979, a development which is a departure from the recent trend where the greatest investment increases occurred in major energy projects. Within the manufacturing sector, the transportation equipment industry will show the single largest investment increase

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as a result of the establishment of a new Ford plant in Windsor, Ontario. Capital spending in the mining industry, which experienced considerable problems last year, is also expected to improve significantly in 1979, with investment increasing by 20 percent.

The survey shows that foreign-controlled companies in Canada will increase their capital expenditure by 18.5 percent this year. That finding is confirmed by another survey carried out by the U.S. Department of Commerce which indicates that American corporations plan considerable increases in their investments in Canada. The authors of that survey expect U.S.-controlled firms to invest \$7.5 billion (U.S.\$) in Canada, which is an increase of \$1.3 billion over last year. This 22-percent increase in U.S. investment in Canada is greater than the projected rate of increase in their total investments abroad (16 percent). The greatest increase (25 percent) should occur in the manufacturing and petroleum sectors. Investments in those

two sectors will reach \$2 billion and \$3.8 billion, respectively. The chemical, machinery and transportation equipment industries will show the largest increases. Somewhat smaller increases will occur in the iron ore and potash industries.

The Canadian survey shows that Canadian firms will be increasing their investments more at home than abroad. Projected foreign investments by Canadian firms are expected to rise by 9 percent, while at home they should increase by 16 percent. According to various analysts, this development is attributable to a number of factors. One is the depreciation of the Canadian dollar which has resulted in increased demand for Canadian products. Other factors are the remarkable rise in profits in 1978 and the increased plant capacity utilization. For example, the food industry, which showed approximately a 60-percent growth in profits, will invest about \$350 million; this represents an increase of 40 percent. The pulp and paper industry, which benefited considerably from the depreciated dollar, will invest more than \$1 billion this year.

Expected increases in capital spending

are confirmed by yet another survey of intentions carried out by the Conference Board in Canada. The survey showed that senior business executives are generally planning higher investment expenditures in the short term.

### Canada's Labour-Cost Ranking Improves

From 1970 to 1978, Canada considerably improved its ranking among 14 industrialized countries from second to eighth in terms of industrial labour costs per hour. The analysis leading to this conclusion was prepared by Informetrica, an Ottawa-based economic research firm. The author took into account exchange rates as well as wage rates. Though the analysis is of 1977 data, a projection suggests that the order of ranking will be the same for 1978.

The study showed that in 1970 labour costs in the United States were the highest among the 14 countries, exceeding those of Sweden by 40 percent. Canada ranked second that year with labour costs about 23

percent below those of the United States and 15 percent above those of Sweden. Since then, however, the situation has changed considerably. By 1977, for example, the declining value of currencies and other factors led to the United States dropping to seventh place and Canada, eighth. That same year Swedish labour costs were 20 percent greater than those of the United States and 25 percent greater than Canada's.

*The table below provides the relevant details of this study.*

### Ontario repeals its Land Speculation Tax Act

The Ontario Government has repealed its Land Speculation Tax Act which had been in operation since 1974. All land dispositions registered since October 24, 1978 are no longer subject to the Act. Statutory liens were also eliminated on January 1, 1979. From that date, liens under the Land Speculation Tax Act, other than those registered on title, were abolished.

Labour Costs per Hour for Industrial Workers in 14 Countries in Canadian Currency, 1970-78

1970		1977		1978*	
	\$Can. Index Can.=100		\$Can. Index Can.=100		\$Can. Index Can.=100
United States	4.43 122	Sweden	9.74 124	Sweden	11.11 129
Canada	3.62 100	Norway	9.27 118	Belgium	11.11 129
Sweden	3.14 87	Belgium	8.79 112	Netherlands	11.11 129
Norway	2.60 71	Netherlands	8.79 112	Norway	10.86 126
W. Germany	2.54 70	Denmark	8.56 109	W. Germany	10.86 126
Denmark	2.47 68	W. Germany	8.56 109	Denmark	10.61 123
Netherlands	2.22 61	United States	8.08 103	United States	9.38 109
Belgium	2.18 60	Canada	7.84 100	Canada	8.64 100
Italy	1.95 54	Austria	6.18 79	Austria	8.14 94
France	1.81 50	Finland	5.94 76	Italy	7.40 86
Britain	1.75 48	Italy	5.94 76	Japan	6.91 80
Finland	1.65 46	France	5.70 73	France	6.66 77
Austria	1.61 44	Japan	4.75 61	Finland	6.42 74
Japan	1.15 32	Britain	3.80 48	Britain	4.94 57

\*Projection based on 1977 data.

# An introduction to Canada's coal industry

by Alan Darisse

---

Coal is one of Canada's most promising and interesting resource industries. Above all it is very complex with the various types of coal being subject to different economic forces and serving different markets. Due to space limitations in an article such as this, the industry will be presented in only its most rudimentary breakdown; that is, the elementary distinction between the metallurgical and thermal coal industries. In this way, it is hoped that the reader will have a fairly good, albeit general, knowledge of the history, situation and prospects of this important Canadian resource industry.

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## Historical profile of Canada's coal industry

Until the late 1940s, coal was Canada's primary energy source used for space heating, locomotive fuel, steel-making and, to a lesser extent, electricity generation. Coal consumption rose steadily until 1948, when it peaked at 42.4 million tonnes. Canadian coal production was situated in the far eastern and western provinces with production in the West being used mainly as locomotive fuel. In 1948, Canadian coal production amounted to some 17 million tonnes. Remaining Canadian requirements were satisfied by imports from the United States, which primarily served central Canadian markets.

The 1950s, however, were dismal years for coal in this country. Massive discoveries of oil and natural gas in Western Canada and the availability of relatively cheap imported oil led to coal losing traditional markets. Canadian coal production suffered a severe blow when the railways switched to diesel fuel. By 1961 coal consumption had dropped to 19.4 million tonnes and Canadian coal production to about 10 million tonnes.

After several years of relative stagnation in the late 1950s and early 1960s, a number of factors combined to give the coal industry new life and hope. These included a growing market for thermal coal in electricity generation and the development of export markets for metallurgical coal.

Since the mid-1960s, the use of thermal coal for electricity generation expanded rapidly in Alberta, Saskatchewan and Ontario. The expansion in Western Canada was based on minesite electricity generating plants, whereas, in Ontario, it was based on imports. Over the period 1965-77, consumption of coal for electricity generation increased by 15.4 million tonnes to 22.4 million tonnes. Imports satisfied about 40 percent of total requirements in 1977.

The metallurgical coal industry also grew considerably during the 1960s and early

1970s. Unlike thermal coal, however, its rise was based on export markets, principally Japan. The federal government helped the industry to develop that market for its coking coal. For a brief period ending in 1971, the government subsidized freight costs on shipments from Alberta and British Columbia mine sites to tidewater. With the strength of the Japanese steel industry and its policy of diversifying its supply sources, Canada's metallurgical coal exports rose sharply in the early 1970s. By 1977, metallurgical coal production in Canada reached 13 million tonnes. It should be noted that Canadian metallurgical coal did not serve the growing Ontario steel industry because transportation costs made it uncompetitive with the imported coal, which the steel industry traditionally relied on.

The whole coal picture in Canada has substantially changed in the last 30 years. Coal is now primarily consumed for electricity generation and steel-making. It is no longer used as a transportation fuel, and is employed only to a limited extent for space heating. By 1977, total coal consumption in Canada was 31.0 million tonnes, up some 12 million tonnes from 1961 levels. Imports continue to play an important role, accounting for 50 percent of total coal consumption in 1977 and satisfying nearly all of central Canada's requirements.

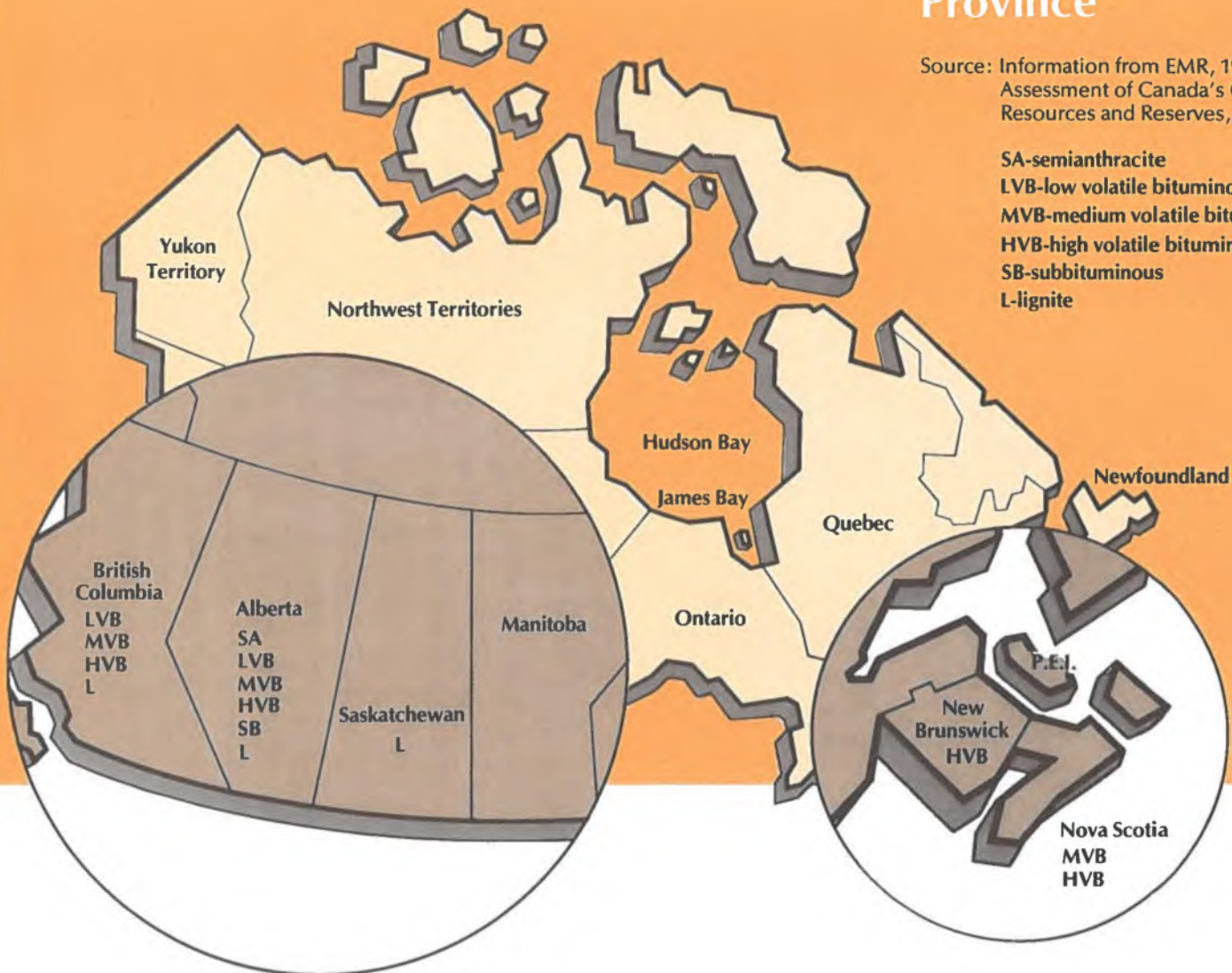
Canadian coal production has undergone even more substantive changes. As the Eastern provinces declined in prominence as coal producers, the Western provinces became, in terms of both resources (Tables 1 and 2) and production (Table 3), the most important region and Alberta, the single most important province. Canada is now a principal exporter of metallurgical coal. Furthermore, production of thermal coal for electricity generation has increased substantially. In 1977, total coal production amounted to 28.1 million tonnes; sales were \$670 million. Of this latter amount, over 90 percent was attributable to export sales of metallurgical coal.

*Alan Darisse is editor of the Foreign Investment Review. He wishes to thank Scott Houston of the Economic and Policy Analysis Sector, Energy, Mines and Resources Canada, for his invaluable assistance in preparing this article.*

# Canada: Principal Coal Regions and Coal Ranks By Province

Source: Information from EMR, 1976 Assessment of Canada's Coal Resources and Reserves, 1977.

SA-semianthracite  
 LVB-low volatile bituminous  
 MVB-medium volatile bituminous  
 HVB-high volatile bituminous  
 SB-subbituminous  
 L-lignite



## Key influences on the structure of Canada's coal industry

Historically, Canadian coal producers have not supplied the central Canadian market. This situation is due to the following factors: 1) transportation costs have made Western coal uncompetitive; 2) U.S. thermal coal has had a superior heating value; 3) both Ontario Hydro and the province's steel industry have "captive" mines in the United States; and 4) until 1978, Ontario lacked the necessary bulk-handling infrastructure for receiving the Western Canadian product. This situation was considerably improved in 1978 by opening the Thunder Bay bulk-handling terminal in northwestern Ontario. The terminal will permit Western

thermal and metallurgical coal to reach the Ontario market. Other factors which might lead to further penetration of the Ontario market by Western producers are the environmental benefits of the low-sulphur content in Western coal and the possibility of major Ontario consumers diversifying their supply sources. In fact, Ontario Hydro already has contracts with three Western Canadian mines for an annual delivery of 3.5 million tonnes of thermal bituminous and low-rank coals.

Transportation is an important consideration for Canadian coal exporters. Canada must compete not only with the United States but with other Pacific Rim countries such as Australia, which have certain geographical advantages. For example, Canadian coal must travel an

average of 700 miles to reach port on the coast of British Columbia, whereas Australian coal only travels about 100 miles to reach its port. This creates significant cost disadvantages for Canadian exporters. Given the soft world steel market and its cooling effect on Japanese demand for metallurgical coal, transportation will be a key to Canada's ability to retain its share of that market. It will also be an important factor in Canada's ability to take advantage of opportunities for thermal coal exports which are expected to open up over the next few years.

Another fundamental economic consideration for thermal coal is its price relative to that of other energy sources, principally oil. The availability of cheap imported and domestic oil was one of the

root causes for the thermal coal industry's decline in the 1950s. Coal's competitive position as a fuel source has improved considerably, however, as a result of actions taken by OPEC in 1973, which caused a quadrupling of oil prices. This led in some cases to the replacement of coal for oil in electricity generation and made other uses, such as coal gasification and liquefaction, more economically attractive.

### Prospects for the coal industry

As pointed out earlier, there is no such thing as the coal industry *per se*. The rather rudimentary division of the industry between metallurgical and thermal coal, each with its own history, means of production and markets, serves to show that this resource industry is no monolith. Consequently, the prospects for metallurgical and thermal coal are different, not being subject to the same production or market factors.

The outlook for metallurgical coal is tied to that of the international steel market and Japan's steel industry in particular. The prospects are not encouraging. For several years the Japanese have been making increasingly pessimistic steel output forecasts. The world steel industry's outlook offers little or no hope of any significant growth in the foreseeable future. Therefore, Canada's metallurgical coal producers and exporters seem destined for some lean years, unless prospects in world steel markets improve markedly.

The story is quite different for thermal coal. Authorities at the Department of Energy, Mines and Resources have forecast a significant long-term increase in demand for thermal coal, particularly low-rank Prairie coals. Most of this demand will be for minesite generation of electricity. By the late 1980s, however, significant amounts could be needed for steam-raising in tar sand and heavy oil processing. In addition, coal could be required as a feedstock for synthetic fuel and petrochemical production as the availability of conventional oil diminishes. Most of this increased demand for thermal coal will be in Western Canada. Production rates of 60.0 million tonnes per year are anticipated by 1990. Coal, however, is not expected to play as important a role in Ontario's energy picture. Ontario Hydro planners have already stated their view that the economics of coal relative to nuclear energy dictates that the best future mix of generating units would be one coal-fired unit for every two nuclear ones.

Though thermal coal producers will have to deal with the longstanding problems of distance and transportation costs, some export opportunities might be opening up in Japan, other Far Eastern countries and Europe. Japan, for example, has been seriously studying the use of thermal coal for electricity generation and has a couple of noteworthy projects that could lead to

**Table 1**  
**Recoverable Coal<sup>a</sup> in Canada - 1976**  
**(millions of tonnes of "raw coal")\***

Province and area	Recoverable coal	
	Coking <sup>b</sup>	Thermal <sup>b</sup>
Nova Scotia		
Sydney	48.6	33.3
Other	0	0
<b>Sub total</b>	<b>48.6</b>	<b>33.3</b>
New Brunswick		
Minto	0	17.1
Other	0	13.5
<b>Sub total</b>	<b>0</b>	<b>30.6</b>
Ontario	0	N/A
Saskatchewan	0	1,706.4
Alberta		
Plains	0	1,919.7
Outer Foothills	0	N/A
Inner Foothills	204.3	N/A
<b>Sub total</b>	<b>204.3</b>	<b>1,919.7</b>
British Columbia		
Southeastern	392.4	N/A
Northeastern	0	0
Other	N/A	1,002.6
<b>Sub total</b>	<b>392.4</b>	<b>1,002.6</b>
<b>Canada total</b>	<b>645.3</b>	<b>4,692.6</b>

**Table 2**  
**Quantity of Coal Resources in Canada — (1976 Estimates)**  
**(millions of tonnes of coal in place)\***

Province and area	Resources of immediate interest		
	Measured <sup>a</sup>	Indicated <sup>a</sup>	Inferred
Nova Scotia			
Sydney	214.2	559.8	447.3
Other	87.3	24.3	54.0
<b>Sub total</b>	<b>301.5</b>	<b>584.1</b>	<b>501.3</b>
New Brunswick			
Minto	18.0	2.7	-
Other	13.5	13.5	.9
<b>Sub total</b>	<b>31.5</b>	<b>16.2</b>	<b>.9</b>
Ontario	216.0		
Saskatchewan			
Estevan	307.8	493.2	433.8
Willow Bunch	742.5	1,035.9	1,408.5
Wood Mountain	275.4	727.2	1,105.2
Cypress	161.1	403.2	461.7
<b>Sub total</b>	<b>1,486.8</b>	<b>2,659.5</b>	<b>3,409.2</b>
Alberta			
Plains	9,384.3	-	80,615.7
Outer Foothills	1,080.0	-	7,920.0
Inner Foothills	7,155.0	-	19,845.0
<b>Sub total</b>	<b>17,619.3</b>	<b>-</b>	<b>108,380.7</b>
British Columbia			
Southeastern	6,237.9	9,361.8	36,029.7
Northeastern	988.2	459.0	7,658.1
Other	1,830.6	90.0	7,380.0
<b>Sub total</b>	<b>9,056.7</b>	<b>9,910.8</b>	<b>51,067.8</b>
<b>Canada total</b>	<b>28,711.8</b>	<b>13,178.6</b>	<b>163,359.9</b>

<sup>a</sup> Recoverable coal is the part of a mineable coal deposit that can be delivered at the mine mouth as raw coal prior to further upgrading.

<sup>b</sup> Quality information is based on individual company intentions as to end use.

\* Table originally expressed in short (2,000 lb.) tons.

Source: EMR, 1976 Assessment of Coal Resources and Reserves.

significant import demand. The Electric Power Development Company, which is government-owned, has recently built a new electric power generating station which will use thermal coal. The Kyushu Power Company (in the southern island of the Japanese chain) is also constructing a coal-burning power house which will need thermal coal by 1980-81. In its current phase it is importing about one million tonnes of thermal coal annually for test purposes and, in three years, will require approximately three million tonnes. It is estimated that by 1985-86 about eight million tonnes will be imported annually. This is not to say that Canadian producers will definitely get a share of the new thermal coal export market; their success will, of course, depend on how well they can compete. What it does show, however, is that there are some promising signs for thermal coal exports.

### Canadian policies and programs for coal

The Canadian government has been actively encouraging the development and use of energy sources, including coal, as an alternative to imported oil. The government articulated its energy policy in the 1976 publication of A National Energy

Strategy, the overall objectives of which were to reduce Canada's "vulnerability to arbitrary changes in price and prolonged interruptions in supply" and to develop "self-reliance" by "supplying Canadian energy requirements from domestic resources to the greatest extent practicable." The strategy has a number of elements of which the following are the most directly relevant to coal: 1) increased exploration and development; 2) increased resource information; 3) interfuel substitution; 4) new delivery systems; and 5) increased research and development.

Though the policy element on exploration and development was directed at oil and gas, the Canadian government has cooperated with provincial governments in a number of joint projects relevant to coal. With Nova Scotia the Canadian government agreed to participate in a \$7.5 million drilling program for onshore and offshore coal exploration. With British Columbia it participated in a \$10 million program to evaluate the geological, environmental, manpower, transportation and townsite factors related to the possible development of coal deposits in the northeastern part of that province.

The second policy element was to increase resource information. The

objective was to create a National Coal Inventory Program designed to determine and compile data on the quantity, mineability and economics of Canadian coal as well as to interpret the information to provide cost and availability estimates of coal reserves. The information was to be gathered with the provinces on a provincial basis.

The third element of interest was interfuel substitution. This involves encouraging the substitution of coal and other domestic energy sources for imported oil in electricity generation and encouraging substitution capability in the design of energy conversion systems such as coal gasification.

The fourth element concerned new delivery systems. In general, the objective was to ensure that the Canadian transportation system be as efficient as possible in linking producers and consumers within the country and in providing producers a reliable system for delivering their coal to foreign markets.

The fifth and perhaps most important element was to increase research and development. The strategy stated unequivocally that "the decline of coal as a major source of energy must be reversed. To accomplish this, new approaches to mining, protecting the environment and



transporting and utilizing coal are required." Consistent with this orientation, the Canadian government has contributed to several R & D projects related to energy in general and coal in particular. It participates in the Alberta/Canada Resources Research Fund, which includes projects in coal mining and *in situ* gasification. It is collaborating with private industry and utilities in the funding of a research and development program on the substitution of coal for oil and natural gas. This research effort covers gasification and liquefaction of coal, and new methods of burning coal.

The government's contribution to the development of the coal industry has not been limited to the domestic market.

Realizing the immense value of foreign markets, the departments of Industry, Trade and Commerce and Energy, Mines and Resources jointly prepared a thorough market survey of world requirements for both coking and thermal coal in Europe, Latin America and Asia. This was made available in 1976 to the Canadian coal industry as a useful marketing and intelligence tool.

Another government initiative related to foreign markets has been sales missions. In 1977, the above-mentioned departments organized a sales mission to Japan and other Far Eastern countries for companies hoping to sell or expand sales of coking coal. A similar program was provided in May 1978 for thermal coal.

## Summary

Geography, history and economics have made Canada's coal industry rather complex and unique. Geography has separated Canada's coal producers from some of the country's largest consumers. History and economics have at one time or other made coal prince and pauper of the resource industries. Though data on resources and demand projections tend to be speculative, it is clear that coal will play an increasingly important role in this country's future: its potential suggests it; government policy recommends it; and the diminishing availability of other energy sources requires it.

**Table 3**  
**Principal Canadian Coal Producers in 1977**

Company and location	Estimated Production <sup>a</sup> (000 t)	Coal Rank <sup>b</sup>	Chief Markets	Type of Mining
<b>Nova Scotia</b>				
Cape Breton Development Corporation				
No. 26 Colliery, Glace Bay	707	Hvb	Metallurgical	Underground
Lingan Mines, Lingan	1,400	Hvb	Thermal Power	Underground
Prince Mine, Point Aconi	208	Hvb	Thermal Power	Underground
<b>New Brunswick</b>				
N.B. Coal Limited, Minto	317	Hvb	Thermal Power	Surface
<b>Saskatchewan</b>				
Manalta Coal Ltd.				
Klimax Mine, Estevan	1,600	Lig	Thermal Power	Surface
Utility Coals Ltd., Estevan	1,300	Lig	Thermal Power	Surface
Manitoba and Saskatchewan Coal Company (Limited)				
Boundary Dam Mine, Estevan	1,600	Lig	Thermal Power	Surface
Bienfait Mine, Bienfait	544	Lig	Thermal Power	Surface
Saskatchewan Power Corporation				
Souris Valley Mine	318	Lig	Thermal Power	Surface
<b>Alberta</b>				
Coleman Collieries Limited, Coleman	813	Mvb	Metallurgical (Japan)	Surface and Underground
The Canmore Mines, Limited, Canmore	110	An	Metallurgical (Japan)	Surface and Underground
Cardinal River Coals Ltd., Luscar	1,600	Mvb	Metallurgical (Japan)	Surface
McIntyre Mines Limited, Grande Cache	1,800	Lvb	Metallurgical (Japan)	Surface and Underground
Forestburg Collieries Limited, Forestburg	900	Sub	Thermal Power	Surface
Manalta Coal Limited				
Vesta Mines, Halkirk	410	Sub	Thermal Power	Surface
Roselyn Mine, Sheerness	410	Sub	Thermal Power	Surface
Whitewood Mine, Wabamun	1,500	Sub	Thermal Power	Surface
Highvale Mine, Sundance	4,500	Sub	Thermal Power	Surface
<b>British Columbia</b>				
Kaiser Resources Coal Ltd., Sparwood	5,500	Mvb	Metallurgical (Japan)	Surface and Underground
Fording Coal Limited, Elkford	3,100	Mvb	Metallurgical (Japan)	Surface
Byron Creek Collieries, Corbin	350	Mvb	Thermal Power	Surface

a Clean coal or as shipped tonnes.

b Lvb — Low volatile bituminous. Mvb — Medium volatile bituminous.  
Lig — Lignite. An — Semi anthracite. Hvb — High volatile bituminous.  
Sub — Sub bituminous.

Source: Coal by J. Aylsworth, Canadian Mining Journal, February 1978.

# West European Investments in Canada

by Gilles Gratton

In recent years, European multinational corporations have been gaining significant ground on their U.S. counterparts. European firms have taken the lead in some sectors and have significantly improved their rank in many others. For example, Hoechst and BASF have become world leaders in the chemical industry; Philips (Netherlands) and Siemens (West Germany) now rank third and fourth as producers of household appliances and electronic equipment; Gutehoffnungshutte and Brown Boveri are second and third in general engineering; Flick and Reed have joined Bowater in the top ten of world paper production; and Hoechst, Bayer and Ciba-Geigy are the leading pharmaceutical producers, ahead of Johnson & Johnson. Recent trends of European investments in Canada must be viewed in light of this international background.

West European investments in Canada have increased significantly since the Second World War. Their rate of increase has actually surpassed that of U.S. investments. This comparison, however, can be misleading because the European base in Canada is very much smaller than that of the United States. Nevertheless, the European presence is growing as a result of the increasing international strength of European multinationals, their search for secure supplies of primary resources and the view of some of them that Canada is a good place to enter the North American market.

## The early role of British investment

In any survey of European investment in Canada, the role of British capital deserves special mention because of its importance in the early commercial development of the country. Two corporate giants, the Hudson's Bay Company and Canadian Pacific, both formerly predominantly British-owned, serve as reminders of the early preeminence of British investment in Canada. But it is not as well known that the London bond market was the principal source of foreign capital for the development of Canada until well into the current century. Indeed Britain remained the largest single foreign investor in Canada until about 1920.

The book value of British capital invested in Canada in 1930 amounted to \$2.8 billion. Thereafter, through the 1930s and 1940s little new investment flowed from Britain to Canada, and as much of the earlier financing had been through bonds, repayments and some defaults in the depression years greatly reduced the stock of British-owned capital in Canada. By 1950 the book value of British investment in this country had declined to \$1.8 billion of which under \$500 million represented direct investment (i.e. investment in British-controlled companies) and \$1.3 billion represented portfolio investments.

This investment pattern changed dramatically in the 1950s. From 1950 to 1960, the value of Britain's direct investments increased from under \$500 million to \$1.5 billion, while its portfolio investments rose from \$1.3 billion to \$1.8 billion. In 1960, British interests controlled almost 1,400 firms in Canada, including 400 manufacturing firms, 430 commercial businesses and about 250 financial institutions. Most of the investments were made in the oil, forest products, textile, chemical and transportation equipment industries. The 12 largest accounted for over \$1 billion of the total. The latter included British Petroleum, Shell, Bowater, Reed, C.I.L., Imperial Tobacco, Tate and Lyle, Cadbury, Rowntree, A.V. Roe Canada, Vickers and Rio Tinto. During the 1960s and 1970s many of the British firms in Canada strengthened their position in the North American market through expansion and diversification.

## Investment from continental Europe

European (other than British) investment in Canada only began to be significant in the early 1960s. Before then, most European capital came to Canada in the form of portfolio investments, but even these were very small. By 1946, for example, the value of European direct investments had reached only \$63 million, with only \$11 million going to manufacturing and over \$40 million, to financial institutions. In all, there were approximately 80 European firms, most of them financial institutions. The 1950s, however, saw the value of European direct investments rise sharply from \$80 million in 1950 to \$800 million in 1960 while the number of continental European firms rose to 300 in 1955, and to over 500 in 1960. In this period, Belgians were the leading European investors, with investments totalling about \$225 million. They were

followed by the French (\$180 million), the Swiss (\$150 million), the Germans (\$110 million), the Dutch and the Swedish (\$35 million). Though a large proportion of the investments were still destined for financial institutions, other trends were already becoming apparent. Half the manufacturing investments were earmarked for the development of the non-metallic mineral industry, mainly cement, and oil refining. Furthermore, direct investments in primary metals manufacturing were increasing.

In addition to being highly concentrated in a limited number of industrial sectors, the bulk of European investments were confined to a very limited number of large corporations. Most Belgian investments, for example, were being made by

Petrofina, the Société générale de Belgique, the Cimenteries CBR and the Empain Group who together accounted for \$175 million of the \$225 million invested by 1960. This concentration was also true of French investments which were mostly accounted for by Air Liquide, Lafarge and a few financial institutions. Dutch investments were largely concentrated in four companies: Shell (a Dutch-British firm), Philips, Nationale Nederlanden N.V. and the Patino Group.

Like the British, continental European investors considerably expanded their Canadian activities in the 1960s and 1970s. The two most significant developments of the 1970s were: 1) the establishment of an increasing number of small- and medium-sized European firms in Canada,

active mainly in the manufacture of machinery, electrical products and chemicals; and 2) the considerable increase of European investment in energy exploration, principally uranium and petroleum. Equally of note, the rising number of acquisitions of U.S. firms by European companies had repercussions in Canada, where European firms indirectly acquired Canadian subsidiaries of American firms. For example, when Thyssen, a company which already had significant interests in Canada, acquired control of the Budd Company of the United States, it also acquired an interest in the Canadian subsidiary, Budd Automotive of Canada, which produces automobile chassis for General Motors.

A measure of the importance to Canada



of European investment can be gained from the fact that European investors, or companies controlled in Europe, have accounted for just under 30 percent of the takeover proposals and over 35 percent of the proposals to establish new businesses submitted to date for review under the Foreign Investment Review Act.

Though European investments in Canada, including those by British investors, have been expanding rapidly, they have attracted considerably less attention than U.S. investments. This can be attributed to the relatively smaller volume of European investments compared to those of the United States, their concentration in industrial sectors and, with few exceptions, their very limited participation in the production of consumer products in Canada. The consumer products they are associated with, such as Lipton soups, Philips home appliances, Nestlé foods and Unilever's Lux soap, have been in Canada for so long that most Canadians are no longer aware of their foreign roots. By far the greatest part of European manufacturing investment is still in the production of industrial products such as cement, machinery, chemicals and electrical equipment. The leading European investors in these areas are the Germans (Kugelfischer, Siemens, Klockner-Moeller, Demag, Klockner-Humboldt-Deutz and O & K Orenstein and Koppel), and the French (Leroy-Somer, Linier, HES Machine Tools, Levage Sepa and Moteurs Drouard). Other Europeans in this sector are the Italians, Danish and Dutch (Dijkers, Hughes-Owens and others).

Europeans have become important in the construction and construction products sectors as well as in the manufacturing of industrial products. Many European firms were active in Canada's industrialization, especially in the development of an infrastructure and extensive power network. The construction firms of Camus, Dumez,

Grands Travaux de Marseilles, Franki and Impreglio-Spino all participated in the development of highways, roads, bridges and hydro-electric dams. Impreglio-Spino, an Italian-Canadian firm in which three big construction firms from Milan (Impresit, Girola and Lodigiani) have interests, holds the largest contract in the multi-billion dollar James Bay hydro-electric project.

Europeans also have an important stake in the building materials sector. For example, the Canadian cement industry is almost entirely controlled by European firms: Lafarge, which controls about 40 percent of the market and has successfully penetrated the U.S. market, Genstar (Société générale de Belgique and Associated Portland Cement Manufacturers of Great Britain) and Ciments Saint-Laurent (Holderbank of Switzerland). In the construction products manufacturing sector, one finds German (Danzer, Manessmann, August Thyssen-Hutte and a few others) and Dutch firms, including Hunter-Douglas. Didier recently established a \$25-million plant for producing firebricks near the SKW works in Bécancour. The Canadian cement, steel, non-ferrous metal and chemical industries will now be able to obtain supplies in Canada which they previously had to import. Furthermore, 80 percent of Didier's products will be exported.

In the past few years, European manufacturers have set up firms to produce equipment for the mining, oil and chemical industries. Examples are Fried Krupp of Germany and Nuova Raccordi Forgiati of Italy. This Italian firm is associated with a new \$30-million joint venture (Uniracor Ltd.) to produce steel pipe fittings. These products, which have been mostly imported at a cost of about \$45 to \$60 million, are used in the chemical and petrochemical industries, and in nuclear facilities.

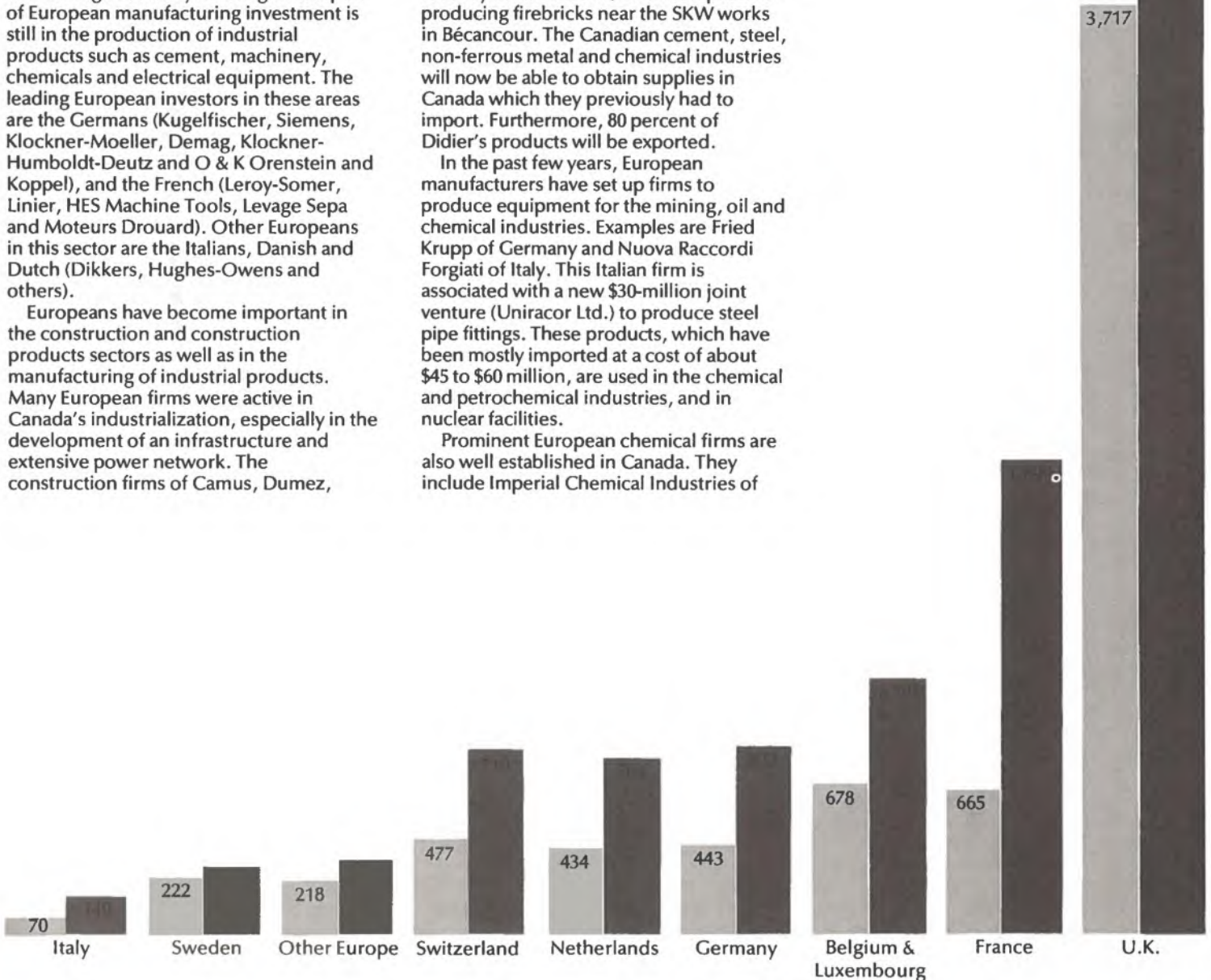
Prominent European chemical firms are also well established in Canada. They include Imperial Chemical Industries of

## European Investment in Canada — 1975

(millions of dollars)

Source: Statistics Canada

European Direct Investment Total	6,924
European Controlled Investment Total	13,684



## Foreign Direct Investment in Canada

	Book value in millions of dollars					Percent increase		
	1930	1945	1955	1965	1975	1945 -55	1955 -65	1965 -75
U.K.	392	348	890	2,033	3,717	156	128	83
Other Europe	42 <sup>a</sup>	61 <sup>a</sup>	325 <sup>a</sup>	1,131	3,207	432	248	184
U.S.A.	1,993	2,304	6,513	14,059	32,194	183	116	129

<sup>a</sup> Includes a small amount of non-European investment

Source: Statistics Canada

## Distribution of Foreign Direct Investment in Canada by Industry, 1975

	United States Percent	United Kingdom Percent	Other Countries Percent
Manufacturing	42.9	32.6	32.3
Petroleum & natural gas	24.2	20.0	25.5
Mining and smelting	11.4	7.6	9.9
Utilities	1.7	0.1	0.9
Merchandising	6.5	8.6	6.3
Financial	9.4	27.2	21.6
Other	3.7	4.0	3.5
	100.0	100.0	100.0

Source: Statistics Canada

England, Ciba-Geigy, Pechiney Ugine Kuhlmann, BASF and Hoechst. More recently KemaNord AB of Sweden has announced that it will build a sodium chlorate plant, making possible a reduction in imports of that product, which is used in paper production.

## European investment in resource development

European investment in the exploration and development of Canada's mineral and oil resources has also grown mainly since the 1950s. It is interesting to note that a number of the European firms in this investment field are either state-controlled or have some state participation. A 1977 Canadian government survey showed that no less than 45 European-controlled firms in Canada in resource development had some form of foreign government participation.

B.P., Shell and Petrofina are the largest European companies involved in Canadian oil and gas exploration and development.

Total Petroleum, a subsidiary of the Compagnie Française des Pétroles, also has an important stake in numerous oil and gas fields. Elf and Aquitaine, whose Canadian assets are valued at almost \$500 million, are each carrying out aggressive exploration programs. Aquitaine, moreover, holds a 75-percent interest in a major gas processing plant. The Italian group ENI has exploration rights off the Atlantic coast, while a consortium of German firms, Deminex, is exploring frontier zones.

European firms have been particularly visible in uranium exploration. Amok, a French company, has initiated a large-scale production program in Saskatchewan involving the investment of about \$130 million over the next two years. Seru Nucléaire (Canada), a subsidiary of the Société d'Études et de Recherches d'Uranium de France, is cooperating with Canadian interests in the exploration of the James Bay area. Uranerzbergbau and the Government of Saskatchewan are jointly involved in the \$100-million development of a new mine. B.P. is carrying out extensive uranium exploration and subsidiaries of the Italian Ente Nazionale Indrocarburi have concluded joint-venture agreements with Canadian firms to explore for uranium. Indeed as interest in uranium


exploration has quickened in recent years, a sizable number of consortia involving Canadian and European investors have been formed to search for this valuable resource.

European firms are also active in other mining sectors. They include Patino N.V. with copper-gold mines in Quebec and Elco Mining Ltd., a consortium of six European firms involved in the development of coal properties in British Columbia, as well as firms active in mineral exploration, such as Metallgesellschaft and Pechiney Ugine Kuhlmann.

## European investment in finance

The financial sector has traditionally been one of the most active destinations for European capital in Canada. In fact, well over 20 percent of European direct investment is in this sector. One has only to think of the British insurance companies, Norwich Union Life, Commercial Union Assurances, Royal and Standard, and Prudential. In addition, the Crédit foncier Franco-Canadien, was established at the end of the 19th century, with the participation of European investors. Others who have established themselves in this country are l'Abeille and La Paix which are known in Canada as the Victoire Group. The Nationale-Nederlanden, N.V. also has considerable holdings, as do Holland Life Insurance and Ennis N.V. of The Hague.

The European industrial presence in Canada and the internationalization of financial transactions have drawn a significant number of financial institutions, affiliated with European banks, to Canada. At present Canadian legislation places restrictions on foreign ownership of Canadian chartered banks. No shareholder or his associates (whether Canadian or non-resident) may hold over 10 percent of the voting stock of a bank and the collective holdings of non-residents are limited to 25 percent. Foreign banks, however, did contribute to the formation of the two newest Canadian banks. The British bank S.G. Warburg and the Paribas International Group each acquired an interest in the share-capital of the Commercial and Industrial Bank, and the Deutsche Genossenschaftsbank is also a shareholder in the Northland Bank. As well, a considerable number of affiliates of European banks are providing, either alone or in partnership with others, a variety of financial services in Canada — the making of loans, leasing, factoring and venture capital activities. In addition many prominent European banks have established representative offices in Canada. Proposed changes in Canadian banking legislation will permit the establishment of wholly foreign-owned banks in Canada. It is expected that a



number of European banks will seize this opportunity to gain a stronger foothold in the Canadian financial sector.

## Joint ventures

One interesting feature of recent European investment in Canada has been the growing frequency of joint ventures with Canadian firms. A survey of the main European investment projects (from \$5 million up) underway in Canada in 1978 shows that many are being carried on in conjunction with Canadian entrepreneurs. Some of these projects and the European investors involved are: a new plant to manufacture automobile engine components (CAE — Montupet Diecast) in which the Société Industrielle et Financière Montupet has a 20-percent interest; a new sawmill (Houston Forest Products) joint venture with Brocan Pulp and Paper Co., owned by two Finnish companies; and a project to manufacture specialty steel (Les Forges HPC Ltée) in which the Société de Forgeage de Rive de Gier has a 60-percent interest.

An earlier joint venture that has proved particularly successful is that formed in 1965 between the Compagnie Générale d'Électricité and the General Investment Corporation of Quebec, a Quebec government agency, to manufacture electrical insulators and switch components. These products are found today on 80 percent of all electrical energy transmission networks in Canada and the technology developed is now exported to South Africa and Brazil. In partnership with other subsidiaries of the Compagnie Générale d'Électricité, the joint venture is developing new technologies in manufacturing low- and medium-voltage cells.

Other European companies have concluded licensing agreements with Canadian entrepreneurs. For example, Bombardier is making generators designed by the Italian firm Grandi Motori Marelli, while Marine Industries is producing electric turbines from French technology. In 1977, the Ontario Ministry of Industry and Commerce recorded about a dozen major manufacturing agreements between industrial firms in that province and European firms.

Over the years Canada has derived considerable benefit from European investment. Besides providing an alternative source of funds for the development of Canadian industry and resources, Europeans have often brought new technology and management skills. Canada still seeks investments that can contribute to the achievement of its economic objectives. That goal and the increasing strength and investment vigour of European multinationals suggest that the European presence here will continue to grow.

# Soviet and East European Direct Investment in Canada

by Carl H. McMillan

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In March 1978 the Economic and Social Council of the United Nations published the conclusions of its first major re-examination since 1973 of the role of the transnational corporation in world development. The report revealed that from 1967 to 1976 the relative importance of foreign direct investment from both developing and socialist countries had increased. Canada has been one of the countries affected by increased socialist foreign investment.

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The socialist countries of Eastern Europe (USSR, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland and Romania) have been following over the past decade a strategy of re-entry into the world economy. An important facet of this strategy has been the establishment of companies in the West, either wholly-owned or owned jointly with local or other foreign partners. Most of these companies have been formed in industrialized Western countries, but an increasing number of direct investments have been made in developing countries. The East-West Project in the Institute of Soviet and East European Studies at Carleton University in Ottawa has identified 356 companies in the OECD countries in which equity was held at the end of 1978 by state enterprises of the USSR and its six East European partners in the Council for Mutual Economic Assistance (COMECON). In addition it has found 179 Soviet and East European direct investments in developing countries. Of the 356 OECD companies 23 percent are wholly owned by socialist parent enterprises. The socialist share amounts to 50 percent or more in all but 15 percent of the remaining mixed equity companies.

The major socialist investors in the industrialized West are the USSR (91 companies), Poland (87) and Hungary (57). They have invested mainly in Germany, France, the United Kingdom, Austria, Italy, the Benelux countries and Sweden. By end-1978, 39 Soviet and East European companies had been established in North America, 15 in Canada and 24 in the United States. Ten of the U.S. companies were founded after 1975 (2 in 1978), whereas only one new company was established in Canada during that period.

Information on the book value of socialist direct investment in the West is fragmentary. Carleton's East-West Project estimates the assets of companies in the industrialized West, in which there is socialist equity, at over \$750 million. Much of this is concentrated in the 23 banks and insurance and leasing companies owned by the socialist countries. The average assets of the remaining companies barely exceed \$1 million.

The reasons for the small average value

of the assets of most socialist companies abroad is that they are concentrated in the service sector, especially in marketing and transportation. Socialist investments in the West, however, are becoming more diversified with a growing number of banks and more investments in the extractive and manufacturing industries.

## Soviet and East European investments in Canada

The 15 Soviet and East European companies in Canada are relatively new, the exceptions being Omnitrade Ltd. and Pekao Trading Company which were founded in the early postwar period. Most of the companies, representing investments by the Soviet Union, Hungary, Czechoslovakia, Romania and Bulgaria, were founded between 1971 and 1976.

In 12 of the companies socialist equity represents a majority share and, in eleven, 95 percent or more. The capital invested in these companies is not great, however, with individual investments ranging from \$25,000 to \$1 million. While balance-of-payments data specifically on direct Soviet and East European investment in Canada are not available, Statistics Canada estimated the book value of direct investment by the "centrally-planned economies" from 1971 to the end of 1975 at \$20 million, including long-term loans from parent to subsidiary as well as equity capital invested by the controlling country. Most of this investment was from the USSR (which accounted for over half), Czechoslovakia and Poland with most of it occurring in 1974 and 1975. Since 1975, the socialist countries have apparently not found that the state of the Canadian market justified significant new investments. Furthermore, socialist practice is to support the development of existing companies, wherever possible, through the reinvestment of profits or through local borrowings.

Fourteen of the companies were established to market products exported to Canada by the socialist parent or by other enterprises in the home country. The other, also in the service sector, is an agent for Soviet shipping on the Pacific coast.

In contrast to the trading firms



*In October of 1978 the Honourable Jack H. Horner, Canada's Minister of Industry, Trade and Commerce, and Mr. N.S. Patolichev, Soviet Minister of Foreign Trade, met to discuss the expansion of Canada-USSR trade.*

established earlier, all of the companies founded in the 1970s are specialized by product. The majority, moreover, specialize in the marketing of machinery and equipment such as agricultural implements, machine tools, electric turbines and aircraft. The higher capitalization of some of these companies shows that product modification and servicing are an important adjunct to their sales. For example, the Soviet machine-tool firm, Stan-Canada Machinery Ltd., has an impressive headquarters in Toronto with large showrooms and built-in warehouse and staging areas. It also has similar though smaller facilities in Montreal.

Soviet and East European investments in Canada could gradually extend to other sectors, the most probable being fisheries, mining, manufacturing (assembly of imported machinery and equipment components) and even banking, if the relevant amendments to the Bank Act are adopted. Several cases suggest such an extension. Polish-Canadian fishing ventures have been discussed. The Czechoslovak company Omnitrade Ltd. in Montreal has extended its activities to production (mining machinery) through the acquisition of a local manufacturing firm. The Soviet-owned Moscow Narodny Bank Ltd. of London has long considered establishing a North American branch. Finally, the Romanians are reported to be interested in gaining access to supplies of Canadian metallurgical coal. They might take an equity interest in a Canadian operation, as they sought to do in the United States in the development of the Island Creek Coal Co. in Virginia, a subsidiary of Occidental Petroleum. U.S. tax regulations discouraged the Romanians from investing directly in the Island Creek operation and they settled for a \$53-million

advance payment in return for guaranteed annual shipments of metallurgical coal at agreed terms over a period of 35 years.

In the case of mixed equity companies, the Canadian partners are frequently individuals (company lawyers or former agents) who are senior executives or directors. In other cases, the partners are usually small Canadian companies with prior association as representatives in Canada of the socialist parent enterprise. Allarco Developments Ltd. is the only well-known Canadian joint investor, its subsidiary, International Jet Air, owning one third of Socan Aircraft Ltd. of Calgary, which was established to market a small Soviet passenger jet aircraft called the Yak-40.

The staff of a socialist company in Canada is a mixture of Canadians and nationals from the home country. The nationals usually occupy some of the principal management and most technical positions, while Canadians are usually in sales, public relations and clerical positions.

### Investor motives

The principal motive for Soviet and East European investments in Canada has been to facilitate the sale of socialist products or, as in the case of Morflot Freightliners Ltd., services in the North American market. The new socialist external strategy in the 1970s has involved a major drive to expand manufactured exports. While traditional socialist exports to the West have been primary products that can be marketed through trade missions or local agents, more effective marketing techniques are needed to expand exports of diversified and sophisticated manufactured products and related services.

New objectives require new

instruments. Development of a permanent market in the West for industrial machinery and equipment or consumer goods requires not only detailed knowledge of customer needs and preferences, but rapid and flexible servicing of their demands. Trade mission officials do not have either the specialized knowledge or the time required by such markets. Local agents have also been increasingly regarded as unsatisfactory, their interests frequently conflicting with those of their socialist employers. By pursuing their own profits, local agents frequently overlook socialist manufactured goods in favor of the more marketable goods of other clients, sometimes the direct competitors of the socialist enterprises. Furthermore, direct investment is necessary to establish an effective infrastructure, including the marketing and servicing of machinery and equipment, warehousing and support facilities, dealer networks and technical service centers.

The decision to take on a local partner is basically the same for socialist and capitalist investors, both having to weigh the advantages of association with a materially interested partner who has local contacts and expertise, against those of full control. In the case of East-West partnerships, however, investors must consider additional factors. Socialist products, developed in a very different economic environment, can confront special problems on Western markets which a partnership, with its greater local identity and know-how, may help to overcome. On the other hand, the bureaucratic nature of the socialist parent and the centralized system of state planning and control under which it operates can make joint-equity ventures particularly difficult.

### Policy issues for host countries

The growth of direct investment by Soviet and East European state enterprises raises certain policy issues for Canada and other Western host countries. While Soviet and East European direct investment in Canada is presently insignificant relative to other international investment flows, it seems likely to continue to grow rapidly and diversify as the socialist countries pursue new markets and sources of supply in the West. Trends in the internationalization of production suggest that Soviet and East European investment will increasingly extend to the extractive, processing and manufacturing industries as the socialist countries become increasingly involved in the world economy. Though ownership and management of productive assets in a capitalist economy create serious ideological problems for socialist countries and persistent hard-currency deficits constrain their ability to undertake major capital investments in the West, they will have to expand and diversify their foreign

investment in order to meet the requirements of international sourcing and more effective servicing of foreign markets.

A second cause for concern is the potential political influence that could be exercised by the socialist countries through direct ownership and control of companies abroad. This could lead to actions contrary to the interests of host countries. Direct foreign investment by state-owned corporations, however, is not limited to East-West relations, but is also common to relations among Western countries. Moreover, there have been well-publicized instances of private Western multinationals being used by governments for covert political activities in host countries. Nevertheless, Soviet and East European investors cause special concern because they are subject to a more centralized governmental control and their national objectives are more likely to conflict with those of host

countries in the West.

In these circumstances the operational record of the companies in question is crucial. Evidence indicates that Soviet and East European companies in Canada follow familiar commercial norms and that their operations do not differ markedly from those of other foreign-owned firms. Furthermore, there have been no publicized cases of subversive behavior.

The commercial objectives of the socialist companies are compatible with Canadian interests, their primary purpose being to adapt their products and services to Canadian needs. The benefits of Canadian imports from the socialist countries should therefore increase. In the case of countries such as the USSR, who have persistently had large trade deficits with Canada, their expanded exports are a means of creating a better balance of trade and a more stable base for the further expansion and normalization of trade relations.

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#### SOVIET AND EAST EUROPEAN COMPANIES IN CANADA

Company	Head Office	Year Established	Socialist Partner	Socialist Equity	Issued Share Capital	Principal Activity
Omnitrade Ltd.	Montreal	1947	Transakta (Czechoslovakia)	100%	\$1,000,000	Sells and services wide range of industrial products.
Pekao Trading Company Canada Ltd.	Toronto	1956	Bank Polska Kasa Opieki (Poland)	99%	\$ 25,000	Sells consumer and manufactured products.
Dalimpex Ltd.	Montreal	1965	DAL (Poland)	95%	\$ 150,000	Sells and services wide range of consumer and industrial products.
Cebecom Ltd.	Toronto	1965	Bulgarkonserv (Bulgaria)	50%	\$ 47,600	Sells fruits, conserves and other food products.
Motokov Canada Inc.	Montreal	1966	Motokov (Czechoslovakia)	100%	\$ 725,000	Sells and services Czech motorcycles, bicycles and mopeds.
Superlux Canada Ltd.	Montreal	1967	Glassexport (Czechoslovakia)	100%	\$ 100,000	Sells products of Czech glass industry.
Morflot Freightliners Ltd.	Vancouver	1971	Sovinflot (USSR)	95%	\$ 100,000	Agent for Soviet shipping to Canadian West Coast.
Belarus Equipment Ltd.	Toronto	1972	Traktoroexport, Zapchastexport (USSR)	100%	\$ 500,000	Sells and services Soviet agricultural equipment in Canada.
Stan-Canada Machinery Ltd.	Toronto	1972	Stankoimport (USSR)	100%	\$ 900,000	Sells and services Soviet machine tools in Canada and the United States.
EMEC Trading Ltd.	Vancouver	1973	Energomachexport (USSR)	95%	\$ 414,000	Sells and installs electrical generators and turbines.
Omnitrade Industrial Co. Ltd.	Montreal	1973	Transakta (Czechoslovakia)	100%	\$ 50,000	Sells and services textile machinery and other products in the United States through operating divisions in New York and North Carolina.
Hungarotex-Canada Ltd.	Montreal	1974	Hungarotex (Hungary)	50%	\$ 50,000	Sells Hungarian textiles in Canada and abroad.
Terra Power Tractor Company Ltd.	Saskatoon	1974	Universal Tractor (Romania)	100%	\$ 100,000	Sells and services Romanian agricultural equipment in Western Canada.
Socan Aircraft Ltd.	Calgary	1975	Aviaexport (USSR)	67%	\$ 50,000	Sells and services Soviet aircraft.
Ascott Equipment Ltd.	Sherbrooke	1976	Universal Tractor (Romania)	49%	\$ 150,000	Sells and services agricultural equipment in Eastern Canada.

Source: Information on file in the East-West Project, Institute of Soviet and East European Studies, Carleton University.

# Participation of Canadians in the management of foreign-owned subsidiaries in Canada

by Frank Swedlove

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The proportion of Canadians in the senior management of foreign-owned subsidiaries in Canada has increased considerably in the past 10 to 15 years. This is one of the key findings of a survey carried out recently by the author who compared 1975 data with those of 1962.

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The 1975 data relate to the largest 133 foreign-owned subsidiaries in Canadian manufacturing and mining. Most of the data were obtained from publicly available forms which companies fill out for the federal government under the Corporation and Labour Union Returns Act (CALURA). These data were supplemented by discussions with some of the firms. The recent survey was prepared in such a way as to be as comparable as possible with an earlier survey carried out by Statistics Canada using 1962 CALURA data pertaining to 138 corporations. The two lists of companies, while not identical in makeup, are very similar.

The principal findings of the two surveys are shown in Table 1.

The most striking change to be observed from the results of the two surveys is that the percentage of subsidiaries whose presidents were Canadian citizens rose from about 45% in 1962 to over 65% in 1975. As well, by 1975 more than 87% of presidents were full-time residents of Canada, compared with less than 75% in 1962. Also, among other senior officers resident in Canada, an increase took place in the percentage who were Canadians.

The most recent survey also obtained information on the nationality of those officers who were *not* Canadian citizens. Of the 46 non-Canadian presidents, 41 (or 89%) were nationals of the country of the parent company. Among the 112 other senior officers who were not Canadian, 86 (or 77%) were similarly nationals of the home country of the parent. The lower percentage for other officers than for presidents may indicate greater mobility of officers among the subsidiaries at the less-than-presidential levels. The presidency, meanwhile, when not filled by a Canadian, seems more likely to be filled by someone from the parent company rather than by someone from a subsidiary in another country.

What characteristics of the subsidiary might make it increasingly likely, as time goes on, to choose Canadians for its senior management positions? The recent survey analyzed the sample firms according to four possible characteristics: (1) industry group, (2) number of years operating in Canada, (3) relative size, and (4) country of parent. The following results were obtained.

## Industry group

The analysis of companies by industry group was hampered by the large number of industries represented in the survey. However, ten industries, each with at least five companies represented, could be identified. In four of the industries, at least 75% of the companies had a president who was both resident in Canada and a Canadian citizen. The four industries were food and beverages, pulp and paper, integrated oil, and chemicals. Of the four, the industry with the largest percentage of presidents who were Canadian was the integrated oil industry, where eight of nine were resident Canadian citizens. In five other industries, roughly 50% of the presidents were Canadian — vehicles and parts, machinery and electrical equipment, rubber and plastics, mineral resources, and primary metals. Companies classified as holding companies had the lowest percentage, with only two of six presidents being Canadian.

As to other senior officers, the companies generally had higher percentages of Canadian participation, with all 10 industries having over 75% Canadians. The pulp and paper industry had the highest figure, with 96% of senior officers (apart from presidents) being Canadian.

## Number of years in Canada

One presumes that the longer a foreign-owned subsidiary has been in Canada, the more time it has had to develop its own managers and to become generally more competent in handling its own affairs, including the choosing of its own executives.

The survey gives support to this hypothesis. The companies were divided into three groups — (i) those that have been in Canada for up to 19 years, (ii) those in Canada 20 to 39 years, and (iii) those in Canada for 40 years or more. For companies in the first category (1-19 years), only 48% of the presidents were Canadians. For those in the second category (20-39 years), the percentage was 63%. Meanwhile, the highest percentage was for those in the third category (over 40 years), where 72% of the presidents were Canadians. A similar pattern holds true for the percentage of presidents resident in

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Canada, with 78% for the youngest companies, 84% for those in the middle category, and 91% for the oldest group.

As to other senior officers, however, the number of years the company has been in Canada seems of little significance. The differences were less than 4 percentage points among the three categories, with the medium-age category having a slightly higher rate of Canadian participation than the youngest or oldest companies.

### Size of firm

Sales of the subsidiary were used as the measure of firm size. All 133 firms in the sample would be considered "large" by Canadian standards. Nevertheless their annual sales varied from over \$5 billion down to \$67 million — a range wide enough to permit analysis of the relationship between size of firm and degree of Canadian participation in management. The firms were separated into four size categories to facilitate comparisons.

A correlation between size of firm and nationality of officers was evident for only the presidents. The largest firms had Canadian presidents in 76% of cases, and the percentage dropped with the decline in firm size. The category of smallest firms had Canadian presidents in only 54% of cases. But as for residence of presidents and citizenship of other senior officers, size of firm appeared to be irrelevant.

### Country of parent

To determine the significance of country of parent, three geographic groups were used — the United States, the United Kingdom, and other European countries — with the United States having by far the largest number of Canadian subsidiaries represented in the sample. Seventy percent of the subsidiaries whose parent companies were in the United States had Canadian citizens as presidents. The figure was 50% for subsidiaries controlled in the United Kingdom or in other European countries. While this difference may be, in part, a reflection of a difference in corporate philosophies between U.S. and European companies, it may also be a reflection of the fact that the U.S. subsidiaries had generally been established in Canada for a longer period of time than the U.K. and other European subsidiaries. As noted above, the extent of Canadian participation in senior management tends to increase with the length of time the subsidiary has been operating in Canada.

As to country of residence of the president, subsidiaries of U.K. companies had the highest percentage residing in Canada, but only marginally higher than for subsidiaries of U.S. and other European subsidiaries. There was no significant difference among subsidiaries

**Table 1**

Survey year	No. of corporations	No. of presidents		Other officers	
		Resident in Canada	Canadian citizens	Resident in Canada	Canadian citizens
1962	138	103 (74.6%)	62 (44.9%)	865	706 (81.6%)
1975	133	116 (87.2%)	87 (65.4%)	980	868 (88.6%)

of the three country groups in terms of the percentage of other senior officers who were Canadian citizens.

### Summary

In summary, the author's 1975 data compared with the 1962 data from the Statistics Canada survey show that a substantial increase occurred in the participation of Canadian residents and citizens in the management of foreign-owned subsidiaries in Canada. Presidents residing in Canada increased from 75% to 87%, and presidents who

were Canadian citizens increased from 45% to 65%. Other senior officers who were Canadian citizens increased from 82% to 89%.

The author's survey shows, in addition, that the length of time a subsidiary has been in Canada, and the industry to which it belongs, are significant factors in determining the extent of Canadian participation in senior management. Size of firm, and perhaps also country of parent, appear to be significant in relation to nationality of presidents, with larger firms and U.S. subsidiaries making greater use of Canadians in the top position.



# Canadian equity in foreign-owned firms

by Radek Bandzierz

Many Canadian investors have shown by their actions that they think that Canadian equity participation in foreign-controlled businesses in this country makes sense. When they have had the opportunity, they have increased their stake in such businesses. A recent survey by the author of selected foreign-owned corporations which were listed on Canadian stock exchanges has shown that Canadian equity participation increased in 71 percent of the firms between 1965 and 1975; almost one-half of the companies examined showed increases in equity ownership by Canadians of more than 10 percentage points. In fact, several of these increases resulted in Canadians acquiring majority ownership from foreigners. The question is, therefore, not whether Canadians are increasing their equity participation, but how they are doing it.

## Acquisition of shares

A primary vehicle for increases in Canadian equity ownership has been the acquisition of shares of foreign subsidiaries which list their stock for trading on Canadian stock exchanges. This was shown in a detailed analysis of selected Canadian-incorporated, foreign-controlled firms that were listed on the Toronto Stock Exchange (TSE) during the 1965-75 period. From the 893 firms listed on the TSE in December 1965, it was possible to identify 82 companies that were foreign-controlled in 1965 and for which 1975 ownership data were available. The data problems caused by name changes, corporate reorganizations and amalgamations seriously limit the size of the sample and, therefore, the breadth of the analysis. Nevertheless, the above-mentioned 82 firms do provide an interesting sample of apparent changes in the degree of Canadian ownership between 1965 and 1975 (Table 1).

Canadian equity ownership increased in 71 percent of the companies in the sample (58 firms) between 1965 and 1975. Only 29 percent of the firms showed either no change or a decrease in Canadian ownership. Table 2 shows that the ownership shifts had a significant effect on the ownership structures of the 58 firms in which Canadian equity participation increased.

The data show a pronounced movement from relatively small Canadian ownership levels to the "over 25 percent" level. In particular, 17 firms came under majority Canadian ownership or control by 1975; these included Alcan Aluminum Limited, Canadian Pacific Limited (transportation, real estate, telecommunications, mineral resources), De Havilland Aircraft Company of Canada Ltd., Hudson's Bay Company Ltd. (merchandising), Bramalea Consolidated Developments Ltd. (real estate) and INCO Ltd. (minerals), all of which are key corporations in their

respective industries in Canada.

Two other surveys confirmed these results. One, carried out by the author, showed that, by 1975, Canadian ownership increased in 55 percent of the foreign-controlled companies listing for the first time on the TSE between 1967 and 1973. Similar results were obtained for an earlier period by Professor G.R. Conway in "The Supply of, and Demand for, Canadian Equities" which was published in September 1968 by the Toronto Stock Exchange.

Between 1965 and 1975, majority Canadian ownership in several firms (e.g. INCO Ltd., Canadian Pacific Ltd. and Alcan Aluminum Ltd.) developed gradually not suddenly.

## Reasons for increasing Canadian ownership

Majority foreign-owned firms have become majority Canadian-owned for several reasons. One of the more notable ownership transfers involved the Hudson's Bay Company, a major department store chain in Canada. In 1970, it transferred ownership to Canadians in order to correct foreign-exchange and taxation difficulties resulting from having most of its assets and earnings in Canada and its tax residence in Britain.

Certain Canadian government policies have also encouraged firms to become majority Canadian-owned. For example, the Mercantile Bank of Canada became majority Canadian-owned to comply with federal law concerning the ownership of chartered banks. Also, the Foreign Investment Review Act has had an effect. Major firms such as Bramalea Limited, Trizec Corporation, the large investment company Talcorp Associates Ltd. (formerly Slater, Walker of Canada), as well as such large firms as Dome Petroleum and Dome Mines Ltd., have all publicly stated that the Act was a primary factor in their decision to

ensure that controlling interests be held by Canadians.

## Acquisition of firms

Acquisitions by Canadian-owned firms of all or part of foreign-owned firms have also contributed substantially to increased Canadian equity participation. For example, Fields Stores Limited of Vancouver was able to greatly increase its network of retail stores by acquiring a majority interest in Zellers Limited, which was previously owned by an American firm (more recently, a majority share in Zellers was acquired by the Hudson's Bay Company). Similarly, the 1976 acquisition by Les Entreprises de J. Armand Bombardier Ltée of Montreal of a majority share in MLW-Worthington Ltd., a railroad equipment manufacturer previously owned by Studebaker Worthington Inc. of the United States, enabled Bombardier to diversify its transportation products. A more recent example would be the acquisition by Alberta Gas Trunk Line Co. Ltd. of a controlling interest in Husky Oil Ltd. in order to diversify and expand into other areas of the petroleum sector.

Publicly-owned firms have also been active in the purchasing of equity. Among the more important were the Canada Development Corporation's acquisition of a controlling interest in Texasgulf Inc., a large mining and mineral company with major assets in Canada, and the Government purchase of the De Havilland Aircraft Company of Canada Ltd. and Canadair Ltd., with a view to possibly merging the two operations and subsequently reselling them to private investors.

This article has shown that Canadian equity participation in foreign subsidiaries, which are listed on Canadian stock exchanges, has increased considerably since 1965. These changes have been motivated by a variety of business and

other considerations and reflect a willingness of Canadians to invest in foreign-controlled firms in Canada, whenever sound equity ownership opportunities are available.

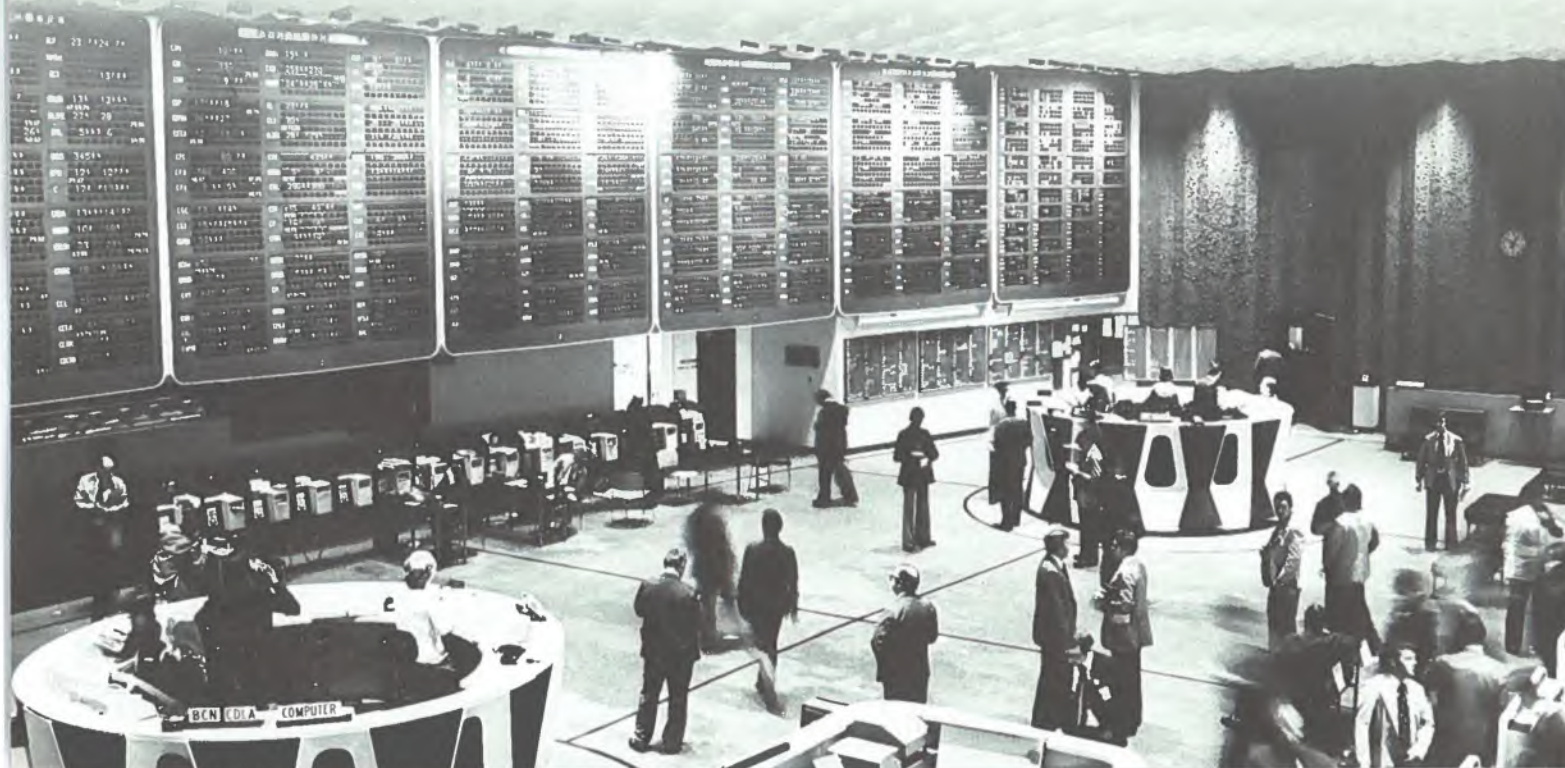
**Table 1**  
**Degree of Change in Canadian Ownership of Voting Equity 1965-1975**

Changes in Canadian Ownership <sup>a</sup> (Percentage points)	Number of Companies			
	Increase	Decrease	No Change	Total
0	-	-	3	3
0.1 - 10.0	18	9	-	27
10.1 - 25.0	22	9	-	31
25.1 - 50.0	13	3	-	16
50 and over	5	0	-	5
	<b>58</b>	<b>21</b>	<b>3</b>	<b>82</b>

<sup>a</sup> These are percentage-point changes in Canadian ownership, not overall percentage changes.

**Table 2**  
**Structure of Ownership in 58 Companies, 1965 and 1975**

Voting Stock Owned by Canadians (Percent)	Number of companies	
	1965	1975
0	5	-
0.1 - 10.0	10	2
10.1 - 25.0	12	8
25.1 - 50.0	27	27
50 and over	4	21
	<b>58</b>	<b>58</b>



# Small business in Canada

Large firms are now the most dominant form of business enterprise in most countries of the world, including Canada, and we are sometimes inclined to forget that this is a comparatively recent development. The Industrial Revolution was accomplished largely through small-scale industries — entities with modest capital, a few score workers at most, owned and managed by a single individual or family. Really large-scale organizations were slow to emerge and their explosive growth did not take place until the first half of the present century. In addition, since Confederation, Canada has had an import-export oriented economy often necessitating fairly large-scale production units. However, in recent years there has emerged a renewed interest in and appreciation of the value of smaller and medium-sized enterprises and efforts have been made to provide more encouragement and a better climate for small business generally. It is hoped that this will provide benefits, such as less need to import, and greater decentralization of economic activity in Canada. At the same time, it may be possible to strengthen local and regional values and this would allow individuals to have a greater sense of identity with their communities.

## The importance of small business

Small businesses are an essential link in the Canadian economy. They serve the consumer and meet the needs of other businesses, large and small. While they may not be able to match the variety and volume of large firms, they can compete on price, service and location or in specialized segments of particular markets, thereby increasing the range of available alternatives. They may not produce most of the goods they provide but they sell many finished products and provide a broad range of services. In Canada, small businesses represent between 800,000 and 900,000 enterprises and between 80 per cent and 90 per cent of all businesses. They employ about 20 per cent of the labour force and account for about 20 per cent of all goods and services.

Small businesses have important social and economic significance. They are, for the most part, relatively labour intensive and often generate more direct and probably more indirect jobs per unit of invested capital on the average than larger firms. The strengthening and proliferation of small business in Canada's towns and villages serves in fact to some extent to stem the flow of young Canadians in search of employment to major urban centres, a movement which has made Canada one of the most urbanized countries in the world. Further, an increase in the number and variety of smaller enterprises might prove to be the salvation of those less-diversified centres which face serious difficulties when major employers find it necessary to cease or reduce operations.

It has also been argued that the smaller size and dispersion of small businesses, their lesser needs for massive infrastructure and their simpler processes result in less risk to the environment. Small businesses are frequently less energy and capital intensive and, by locating close to the ultimate market, they can often enjoy lower transportation costs. Small businesses also often provide a setting conducive to entrepreneurial and technological innovation. They provide productive outlets for the talents and energies of enterprising and independent people, many of whom might not reach their potential in large organizations. Their dynamism contributes to competition. In many countries, small firms provide parts and sub-assemblies to large firms at considerably lower unit costs than if the latter were to produce them themselves.

Finally, the quality of community life in Canada is undoubtedly enhanced by the small business sector. By nature, entrepreneurs possess self-confidence, determination and optimism, qualities which invariably carry over in terms of active support for civic endeavours of all types. Small businesses and the people who own and operate them, have for generations been the backbone of countless communities across the country.

## The financing of small business

Since established firms can obtain financing from commercial institutions, and a number of government agencies exist to help meet the needs of those whom commercial lenders find they cannot accommodate, financing may not

*Excerpt from The Commercial Letter of The Canadian Imperial Bank of Commerce, Issue No. 2, 1978. The Canadian Imperial Bank of Commerce is a leading chartered bank with 1,853 Canadian and foreign branches and offices and assets of \$38.3 billion.*

## PROFILE OF SMALL BUSINESS IN CANADA, 1974

Sales Class (\$000's)	Number of Businesses				Total Sales (Millions of dollars)				Return on Sales (percent)			
	All Busi- nesses in Canada	Small Businesses			All Busi- nesses in Canada	Small Businesses			All Busi- nesses in Canada	Small Businesses		
		Less than \$50	\$50- \$250	\$250- \$1000		Less than \$50	\$50- \$250	\$250- \$1000		Less than \$50	\$50- \$250	\$250- \$1000
Primary Manufacturing	15,701	4,221	4,596	3,493	56,740	87	575	1,824	9.7	15.8	6.1	6.2
Secondary Manufacturing	22,693	7,823	6,721	4,179	40,950	173	816	2,176	8.0	17.1	6.6	4.3
Transportation	50,659	39,363	8,041	2,326	12,155	725	831	1,114	6.8	25.6	8.7	4.9
Construction	90,120	52,237	25,710	8,925	19,466	1,063	2,856	4,323	7.0	30.8	10.2	5.6
Wholesale Trade	53,980	22,829	14,448	9,666	52,118	439	1,762	5,054	4.5	14.6	7.9	5.1
Retail Trade	136,738	50,380	61,652	19,585	47,782	1,122	7,431	8,764	5.5	15.5	7.1	4.2
Services	116,756	75,188	32,041	7,802	15,260	1,413	3,462	3,547	10.5	14.1	12.7	6.0
Finance	74,503	46,937	19,778	5,865	24,850	773	2,171	2,700	17.3	33.8	22.0	19.0
Other	52,897	33,403	14,844	3,323	24,853	584	1,552	1,524	18.8	23.3	8.5	7.5
<b>Total</b>	<b>614,047</b>	<b>332,381</b>	<b>187,831</b>	<b>65,164</b>	<b>294,174</b>	<b>6,379</b>	<b>21,456</b>	<b>31,024</b>	<b>9.0</b>	<b>23.7</b>	<b>10.1</b>	<b>6.3</b>

appear to be a principal stumbling block confronting small business in Canada. Nevertheless, many small businessmen find it difficult to arrange adequate financing. Many cannot meet the requirements of those who supply funds. Others have difficulty in identifying sources of assistance. Managers of small enterprises often do not know how to approach financial institutions. The planning and forecasting involved in preparing a presentation is often beyond their skills. Also, their timing is frequently wrong. They wait until their problem has reached panic proportions and then cannot understand why the potential lenders are unable to meet their needs.

Part of the financing problem is the relatively minor role of the venture capital market in Canada in providing financing in various forms for start-up, development or expansion purposes. Canadian tax regulations appear to be reducing the flow of risk capital for the establishment of new ventures. The trend away from personal investment in equities appears to be in large measure a result of the 1971 taxation changes in Canada. The impact of these changes has been a shift in emphasis from seeking capital gains to investment in tax-sheltered or tax-free situations. Tax incentives generally encourage savers to put their money into government bonds, guaranteed investment certificates, or insurance or pension funds rather than into the equity of new ventures. Discretionary wealth, which, a generation or two ago, might have been invested in new, small business, is increasingly drained off into government treasuries.

Venture capitalists claim that the risks of investing have risen with a corresponding increase in the rewards. One reason is the growing imbalance between the public and private sectors. Another is the lower after-tax rate of return. The capital gains tax

makes no distinction between blue chips and high-risk stocks. Venture capitalists often find it extremely difficult to get out of certain stocks, so they are very cautious about getting involved in risky, though interesting propositions. Since the late 1960's, the stock market has not been receptive to junior underwritings and it has become almost impossible for small, privately-held companies to go public through a securities issue. Nor can a company be sold to foreign investors who fail to qualify under the Foreign Investment Review Act. In order to overcome the difficulties involved in recycling their risk capital, many venture capitalists are placing more emphasis on debt financing and are demanding firm repayment schedules.

While the chartered banks understand the requirements of small business for financial services well and have been willing to supply term funds, their efforts have been constrained, to an appreciable extent, by influences beyond their control. Until the early part of last year, the Small Business Loans Act formula, under which interest rates are determined on certain small business loans, resulted in rates that frequently prevented the banks from covering their costs. Since the formula was changed, however, there has been an increase in the volume of these loans. Many small businessmen are also sometimes reluctant to share enough information with the banks to enable them to follow the borrower's affairs constructively. As custodians of public saving, the banks are naturally most concerned with the protection of capital, and prudence prevents them from taking immoderate risks with other people's money.

As the chartered banks have perceived a need in Canada for additional financial services to small business, they have taken steps to meet these needs. In addition to

their already considerable financing of smaller enterprises, several banks have acquired affiliations with venture capital companies. This has enabled them to refer customers to further sources of financial assistance. The introduction of bank charge cards has greatly enhanced the convenience of shopping at small outlets. It has also enabled small businessmen to compete more effectively with large department stores and chain store outlets.

In the course of lending funds to small businesses the chartered banks perform a number of related functions. Customers are kept aware of business opportunities as well as the growing diversity of services available through the local branch network. Some banks have conducted financial management seminars for local small businesses. The banks are also sometimes able to offer special services, such as leasing and factoring, to the small businessman.

### Small business and government

The growing interest of a number of influential groups, particularly business associations, in the health and long-term prospects of small business in Canada resulted in the appointment in 1976 of a Minister of State for Small Business. Provincial governments have also begun to recognize some of the significant problems of small businesses and have introduced tax incentives and other programs specifically aimed to help them.

In April 1977, the federal government launched its Enterprise Development Program (EDP) for small and medium-sized businesses, replacing a number of existing programs. The program is intended to promote growth in the manufacturing and processing sectors of the economy by taking a "merchant" banking approach to selected small firms. A merchant bank can

be defined as a financial institution serving its clients by identifying, structuring and providing all the financing and financial management services required to realize a firm's full potential. The program consists of grants for a variety of uses, including the cost of proving a project's eligibility for assistance, studies on market potential, productivity improvement, industrial design, and so on.

More recently, a number of new measures aimed at assisting the small business have been announced by the federal government. Changes raising the threshold above which manufacturers are required to pay the federal sales tax will mean that fewer companies will have to pay the tax and the number of times other small manufacturers must file returns is being reduced. Steps are also being taken to speed up payment for goods and services supplied by firms to the federal government and to require large bidders for government contracts to submit in their tenders or proposals a plan for subcontracting work to smaller firms. A sourcing list will be maintained to help small businesses market their products and bulletins on marketing opportunities and technological developments of interest to small business will be prepared and evaluated.

Reduction in the considerable time, money and effort spent each year by Canadian business on the "paper burden" continues to be a top priority. Programs have been introduced by Statistics Canada to streamline reporting requirements and the paperwork required when applying for small business loans has similarly been reduced.

The federal government has issued a White Paper outlining three initiatives designed to help small businesses obtain needed capital. It plans to:

- 1) increase the equity investment activities of the Crown-owned Federal Business Development Bank.
- 2) introduce tax measures to enhance the availability of risk capital to small business, and
- 3) allow the creation of venture enterprise investment companies (VEICS) with special tax breaks to create pools of venture capital.

The package also included proposed amendments to the Income Tax Act to permit the deferment of capital gains tax on the transfer of certain small business holdings from a parent to a child or grandchild. Changes are also to be made to

create a category to be known as "allowable business investment loss". Under the terms of this provision, allowable capital losses on shares or debts of Canadian-controlled private corporations will be deductible for tax purposes against income from any source.

## Conclusion

It will be seen that small business is of important social and economic significance to Canada and that this importance is receiving increasing recognition. While it will never be possible to provide answers to all the problems inherent in entrepreneurship, the growing diversity of aids to small business will ensure that many more Canadians will be in a position to take advantage of its challenges and satisfactions. The coming decades will likely be periods of rapid change and this will widen the opportunities for small businesses. Because of their flexibility and ability to innovate, small businesses tend to be well suited to a changing environment. Given a continuation of the present climate, this important segment of the business community would seem assured of a viable future.



# Capital investment projects in Canada

## II. Manufacturing and forest industries

This list shows major capital spending projects now in progress or firmly committed in the manufacturing and forest industries sectors. Only projects costing over \$10 million are included. Other sectors will be covered in subsequent issues of Foreign Investment Review. Information on these projects has been obtained mainly from press reports verified, where necessary, by the companies concerned.

This report was prepared for the Foreign Investment Review by L. E. Dewis, Analyst with the Capital Expenditures Group, Economic Analysis Branch, Department of Industry, Trade and Commerce.

Capital spending in the manufacturing sector is expected to increase substantially in the 1979-80 period. A recent survey of large firms carried out by Industry, Trade and Commerce reports manufacturing firms are expecting to increase their capital expenditures in the 1979 period by about 13.1 percent in real terms. The largest increases are expected in food and beverage and transportation equipment companies.

For the forest industry sector, surveys by both Pulp & Paper Canada and Industry, Trade and Commerce indicate that capital spending will exceed \$1 billion this year.

The large capital expenditures listed below, which are compiled from public sources, cover woodlands operations as well as mill production facilities and pollution abatement. The cost shown is the total project cost, which is often spread over several years. In addition to these projects, companies in the industry are spending substantial sums annually on smaller expansion or renovation projects. For example, companies like Crown Zellerbach Canada Ltd. and MacMillan Bloedel Ltd. in British Columbia, Consolidated-Bathurst Ltd. and Abitibi Ltd. in Quebec and Ontario, have large expansion programs underway, however, only the largest individual projects are included in this list.

Company and project description	Completion date	Cost (\$ million)	Location
<b>British Columbia</b>			
Dow Chemical of Canada Ltd. Chemical distribution centre	1979	10.0	Ladner
Fiberglas Canada Ltd. New glass fibre insulation plant	1980	25.0	Mission
Tree Island Steel Co. Ltd. New rolling mill	1979	50.0	Richmond
British Columbia Forest Products Ltd. Improvements	1979	41.0	Crofton
Canadian Forest Products Ltd. Modernization program	1979	25.0	Vancouver
Crown Zellerbach Canada Ltd. Thermomechanical pulping	1979	26.6	Campbell River
Hog fuel boiler	1980	24.2	Campbell River
Expansion, pulp and paper	1983	150.0	Campbell River
Doman Industries Ltd. New sawmill	1979	30.0	Nanaimo
Fraser Lake Sawmills Ltd. New sawmill	1979	14.4	Fraserdale
Houston Forest Products Ltd. New sawmill complex	1979	20.0	Houston
MacMillan Bloedel Ltd. Modernization program	1983	450.0	Port Alberni
Tahsis Co. Ltd. Sawmill improvements	1981	20.0	Vancouver Island
<b>Prairie Region</b>			
Alberta Gas Chemicals Ltd. Methanol plant	1982	50.0	Medicine Hat, Alta.
Alberta Wheat Pool Rapeseed oil processing plant	1979	15.0	Fort Saskatchewan, Alta.
Canada Cement Lafarge Ltd. Expansion program	1980	70.0	Exshaw, Alta.
Canadian Industries Limited Polyethylene plant expansion	1981	45.0	Edmonton, Alta.
Abitibi Paper Company Ltd. Thermal-chemical-mechanical pulping system	1979	26.0	Thunder Bay

Celanese Canada Ltd. Vinyl acetate monomer plant	1979	23.0	Edmonton, Alta.
Diamond Shamrock Alberta Ltd. Polyvinyl chloride plant	1979	50.0	Fort Saskatchewan, Alta.
Dow Chemical of Canada Ltd. Ethylene glycol plant	1979	95.0	Fort Saskatchewan, Alta.
Earth Sciences Inc. Uranium oxide facility	1979	12.5	Calgary, Alta.
Eldorado Nuclear Ltd. Expansion	1979	45.0	Radium City, Sask.
Inland Cement Industries Ltd. New cement plant	1980	60.0	Edmonton, Alta.
Interprovincial Steel and Pipe Corp. Ltd. Expansion	1980	45.0	Regina, Sask.
Molson Companies Ltd. Brewery expansion	1983	24.0	Edmonton, Alta.
Westroc Industries Ltd. Gypsum wallboard plant	1979	13.0	Calgary, Alta.
North Western Pulp & Power Ltd. Pollution control program	1979	35.0	Hinton, Alta.
Procter & Gamble Cellulose, Ltd. New saw mill	1980	15.0	Grande Prairie, Alta.

### Ontario

Algoma Steel Corporation Expansion of seamless tube plant	1979	18.8	Sault Ste. Marie
Heat-treating line, wide plate mill	1980	24.0	
Canada Starch Co. Ltd. Addition to corn syrup plant	1979	12.0	Cardinal
Canadian Industries Ltd. Expansion urea production unit	1980	18.0	Lambeth
Consumers Glass Co. Ltd. Glass container plant	1980	20.0	Milton
Erco Industries Ltd. Sodium chlorate plant	1979	11.0	Thunder Bay
Fiberglas Canada Ltd. New plant, fiberglass products	1979	25.0	Scarborough
Firestone Steel Products of Canada Expansion	1981	20.0	London
Ford Motor Company of Canada Ltd. New engine plant	1981	533.0	Windsor
Inco Ltd. Electric motor winding shop	1979	29.0	Copper Cliff
Lake Ontario Steel Co. Ltd. Expansion	1980	85.0	Whitby
William Neilson Ltd. Modernization	1981	12.0	Toronto
Photo Engravers & Electrotypers Ltd. Modernization	1980	10.4	Toronto
Redpath Industries and John Labatt Ltd. Corn sweetener plant	1980	60.0	London
Stanley Steel Company Ltd. New rolling mill	1980	10.0	Hamilton
The Steel Company of Canada Ltd. New steel plant	1981	1,250.0	Nanticoke
Uniroyal Limited Expansion of tire manufacturing plant	1979	13.0	Kitchener

American Can of Canada Ltd. Modernization of bleached kraft pulp mill	1979	26.0	Marathon
Domtar Inc. Expansion, gypsum wallboard plant	1979	22.0	Caledonia
E.B. Eddy Forest Products Ltd. Modernization and pollution control	n.a.	15.5	Espanola
Reed Paper Ltd. Expansion and pollution control	1983	40.0	Dryden
Spruce Falls Power and Paper Co. Ltd. Modernization program	1983	70.0	Kapuskasing

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### Quebec

Bilopage Inc. Frozen foods plant	1979	15.0	Quebec City
Canada Packers Ltd. Expansion of edible oil refinery	1980	15.0	Point St. Charles
Carling O'Keefe Ltd. Brewery expansion	1980	22.5	Montreal
Chromasco Limited Plant to produce magnesium	1980	40.0	Montreal
Co-Operative Agricole de Granby Dairy processing complex	1979	22.0	Granby
General Motors of Canada New plant to manufacture buses	1979	36.0	St. Eustache
Quénord Chemicals Ltd. Sodium chlorate plant	1980	16.2	Magog
Uniracor Ltd. Pipe fittings plant	1980	31.0	Bécancour
Valcartier Industries Inc. Modernization, small arms plant	1983	18.0	Valcartier
Canadian International Paper Co. Ltd. Pulp mill expansion	1979	24.0	Gatineau
Consolidated-Bathurst Ltd. Improvements to pulp mill	1979	29.0	Port Alfred
Kruger Pulp & Paper Ltd. Expansion of coated paper mill	1980	18.0	Trois-Rivières
Métallurgie Farnham Inc. New iron foundry	1979	16.5	Farnham
Price Co. Ltd. Mill conversion	1980	32.0	Kenogami
Tembec Forest Products Inc. Mill improvements	1981	12.0	Témiscaming

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### Atlantic Region

National Sea Products Ltd. Fish processing plants	1980	11.0	Arnolds Cove, Nfld. Lunenburg, N.S.
Michelin Tires Manufacturing Co. of Canada Ltd. Expansion tire manufacturing	1979	25.0	Granton, N.S. Bridgewater, N.S.
Sydney Steel Corporation Renovations	1979	19.0	Sydney, N.S.
Abitibi Paper Company Ltd. Mill reopening and conversion	1981	70.0	Stephenville, Nfld.
Fraser Companies Ltd. Renovations to pulp mill	1979	91.5	Edmundston, N.B.
Nova Scotia Government Forest management program	1983	20.0	Nova Scotia
Ontario Minnesota Pulp & Paper Co. Ltd. Pulp mill improvements	1980	35.0	Newcastle, N.B.
Ste. Anne-Nackawic Pulp & Paper Co. Ltd. New plant for pulp bleaching chemicals	1979	13.0	Nackawic, N.B.

# Incentives to Industry

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## Federal Incentives

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Over the past several years Canadian governments have been building up a system of incentives designed to stimulate and encourage business capital spending and investor confidence. These measures foster a number of economic objectives such as regional development, industrial expansion, international competitiveness and research and development. For example, in the federal budget of November 1978 the Minister of Finance proposed a number of measures intended to improve efficiency, lower costs and promote balanced regional development. The major tax incentives to investment include:

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### **Investment tax credit**

An investment tax credit which varies regionally from 7 percent to 20 percent is available as a direct reduction from federal tax payable. This credit reduces the cost of most new buildings, machinery and equipment used in manufacturing and processing. In 1978 it was extended to expenditures on scientific research and development and to investment in equipment for rail, air, water and long haul transport. The credit is limited in any one year to \$15,000 plus one-half federal tax payable in excess of \$15,000, but any unused credits may be carried forward for 5 years, subject to the same annual limits. In 1978 this tax credit was extended indefinitely beyond its scheduled expiry date.

### **Research and development incentives**

In 1978 the investment tax credit for R & D expenditures was raised to 20 percent in the Atlantic Provinces and 10 percent in the rest of Canada, while small businesses were allowed a special R & D tax credit of 25 percent. In addition to writing off 100 percent of current and capital expenditures for R & D, taxpayers can deduct from their income a further 50 percent of any increase in such expenditure over the average level of the previous three years.

### **Accelerated capital cost allowance for manufacturing and processing industries**

Taxpayers may charge a 50 percent straight line of depreciation on most new machinery and equipment for use in manufacturing and processing (including

heavy-oil upgrading) thus writing off such assets in two years.

### **Inventory allowance**

In recognition of the distortion of business income from inventory inflation, 3 percent of the opening cost of inventories (except real property and goods not for resale) can be deducted in calculating business income.

### **Special rate for manufacturing and processing profits**

A special rate of tax on manufacturing and processing activities (including heavy-oil upgrading) reduces the general rate on corporate profits from 36 percent to 30 percent. Provincial corporate tax rates ranging from 10 percent to 15 percent are levied in addition to the applicable federal rate.

### **Special tax rates for small businesses**

Smaller enterprises are accorded lower income tax rates up to a specified amount of cumulative earnings. The rate is 20 percent in manufacturing and processing industries and 25 percent in other activities. These lower rates are applicable to the first \$150,000 of taxable income to a maximum of \$750,000.

### **Employment tax credit**

Employers hiring unemployed workers to fill newly created jobs which are additional to their normal work force may be entitled to a tax credit which varies regionally.

## Oil and gas exploration incentives

A variety of incentives encourage oil and gas and other mineral exploration and development in Canada.

In addition to fiscal incentives, federal and provincial governments have established a number of industrial assistance programs designed to encourage industrial development generally or to attract enterprises to particular areas. Provincial government programs will be described in the next issue of Foreign Investment Review. The major federal programs are outlined below.

## DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

The Department offers cash incentives or loan guarantees to firms that set up business in the designated regions. These regions include Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island, Quebec (except for Hull and its environs), Northern Ontario, Northern Alberta, Northern British Columbia and the Northwest Territories.

Most manufacturing and processing firms are eligible for the development incentives and loan guarantees. Facilities for primary processing — oil refining and certain pulp and paper industry activities — and commercial facilities are not eligible. However, loan guarantees may be offered to business offices, warehousing and freight handling facilities, shopping centres, convention facilities, hotels and motels, recreation centres and research establishments.

Incentives for the construction of new facilities or the expansion of existing ones to produce new products are equal to 25 percent of the investment value plus a percentage (15 or 30 percent) of the wages depending on the host region. Incentives for modernizing facilities or increasing production capacity are equal to 20 percent of the investment. Large-scale projects entailing investments of at least \$1.5 million and the creation of at least 100 jobs are reviewed in light of their benefits and needs. The Department guarantees loans made to service firms in order to help them obtain favorable financing terms. **Contact:** *Industrial Incentives Branch, Department*

*of Regional Economic Expansion, Ottawa, Ontario, Canada K1A 0M4.*

The Department of Regional Economic Expansion also has an incentive program for businesses wanting to establish themselves in the Montreal Region. The incentives are based on approved capital costs. The amount offered varies with the nature of the project and the location. The maximum level of an incentive is 25 percent of the approved capital costs in the case of a new facility and 20 percent in the case of modernization or expansion projects. Only the industries involved in the following activities are eligible for the incentives: food industries dealing in prepared and quick frozen food; metal fabricating; machinery; transportation and equipment; electrical products; chemicals and chemical products; scientific and professional equipment; and, sporting goods and toys. **Contact:** *Department of Regional Economic Expansion, Tour de la Bourse, 300 Place Victoria, C.P. 247, Montreal, Quebec, Canada H4Z 1E8*

## DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

### Enterprise Development Program (EDP)

This program assists small- and medium-sized manufacturing and processing business to become more viable and internationally competitive. Though it was introduced only two years ago as an amalgamation of seven existing programs, it has already helped many firms. In 1977-1978 alone, 265 projects were authorized with the assistance amounting to \$125 million. In the first 6 months of this fiscal year, over \$100 million had been offered to Canadian businesses. During the next five years, the program is expected to make payments of over \$1.3 billion to Canadian firms.

In order to receive assistance, the applicant must develop and submit a plan that shows how the project will affect the firm's viability. EDP officers analyze the firm's resources (human, financial, physical and technological), the potential and limits of the market, and the plans for deploying the resources and penetrating the Canadian and foreign markets. The results of the analysis are submitted for approval to the Enterprise Development Board, which is composed of businessmen and public servants.

The two main forms of assistance are cost-sharing and loan insurance. Cost-sharing is available for marketing and productivity studies, and innovation and design projects. Loan insurance is generally used for the expansion or modernization of facilities, working capital, mergers and acquisitions.

The eligibility criteria focus on the viability of the firm and project and on the firm's ability to finance its projects. As for cost-sharing, the activities must represent a heavy financial burden for the firm when compared with its resources. Loan insurance is provided on a last-resort basis to firms unable to obtain debt capital on reasonable terms and conditions. Firms seeking loan insurance must have called upon other institutions such as the Federal Business Development Bank before applying to the Department.

Manufacturing and processing firms are generally eligible for all forms of assistance offered by the program. Firms in the service sector can obtain loan insurance if they can demonstrate that their services will produce a direct, tangible and substantial benefit for manufacturing and processing firms. **Contact:** *Enterprise Development Board, Department of Industry, Trade and Commerce, 235 Queen Street, Ottawa, Ontario, Canada K1A 0H5.*

### Program for Export Market Development (PEMD)

The purpose of the program is to help Canadian suppliers penetrate new export markets or increase their exports. Financial assistance is provided in the form of a repayable loan (in the event of success) for eligible expenses: 1) when a firm presents bids involving unusually large and complex capital expenditures; 2) in cases of exceptional international competition; and 3) for establishing a consortium to respond to demand in foreign markets.

The program has five sections offering a wide range of assistance designed to meet the needs of industry. The program encourages participation in major projects abroad, export market identification or adjustment, trade fairs abroad, trips to Canada by potential buyers and the formation of export consortia. About 2,000 firms use this assistance program each year. **Contact:** *Program for Export Market Development, Department of Industry,*

Trade and Commerce, 235 Queen Street, Ottawa, Ontario, Canada K1A 0H5.

#### Small Businesses Loans Act

The Department of Industry, Trade and Commerce guarantees loans made to small businesses whose gross annual income does not exceed \$1.5 million during the year in which the loan is made or, in the case of a new firm, if the estimated income in the first financial period — at least 55 weeks — does not exceed \$1.5 million. Last year, more than five thousand firms used this program to borrow over \$90 million.

All chartered banks, Alberta Treasury Branches and designated financial institutions — credit unions, trust, loan, insurance and finance companies — are authorized to make loans under the provisions of the Act.

Loans may be authorized to finance the cost of stationary and transportation equipment, building and land necessary for operating a commercial venture and construction, installation, renovation, improvement or modernization of facilities.

The maximum rate of interest payable on SBLA loans is one percent over the prime lending rates of the chartered banks. The repayment period may not exceed 10 years. The terms of the loan are settled between the lender and the applicant without prior reference to the government. The amount to be repaid may not exceed \$75,000 and the applicants must invest a reasonable portion of the purchasing cost out of their own resources. **Contact:** *Bank manager or the Department of Industry, Trade and Commerce, 235 Queen Street, Ottawa, Ontario, Canada K1A 0H5.*

#### Machinery Program

This program provides for the remission of customs duties on imports of machinery not manufactured in Canada but of vital importance for the firm. Last year, Canadian manufacturers were reimbursed over \$225 million. **Contact:** *Machinery and Equipment Advisory Board, Department of Industry, Trade and Commerce, 235 Queen Street, Ottawa, Ontario, Canada K1A 0H5.*

#### Other programs

Other programs have been developed for shipbuilding, trade fairs and missions,

defence production, footwear and tanning, fashion, and export growth and development. **Contact:** *Department of Industry, Trade and Commerce, 235 Queen Street, Ottawa, Ontario, Canada K1A 0H5*

### EXPORT DEVELOPMENT CORPORATION (EDC)

The Corporation provides financial assistance for Canadian export business by means of insurance, loans, guarantees and other services. In 1978, the value of the EDC's financial assistance was almost \$6 billion.

The EDC has extensive powers for helping all firms in Canada, regardless of size, insuring them against non-payment by foreign buyers of Canadian goods and services in almost all export sectors.

Through its "Risk Protection" insurance, the EDC can insure financial institutions against calls on surety instruments provided on behalf of Canadian exporters and can insure consortium members against the possibility of non-performance by another member of the consortium. The EDC also extends long-term loans, or guarantees loans, to foreign buyers of Canadian goods and services. These loans are arranged in the private sector with interest rates which are the most competitive possible in the international market. The EDC offers this service when the foreign buyer needs long-term (five years or more) credit but cannot obtain it from private sources.

The EDC can insure Canadian firms investing abroad against political risks, including losses or damages resulting from expropriation, insurrection, war or the impossibility of converting profits or capital. Almost any interest an individual or firm can have in a business concern abroad is insurable, including shares, loans, contracts for administrative or technical services, royalties and licensing agreements. However, only new investments in developing countries are eligible for insurance at the present time, the main condition being that the investor maximize the benefits to be derived by Canada and the host country. **Contact:** *Export Development Corporation, 110 O'Connor Street, Ottawa, Ontario, Canada K1P 5T9.*

### Canadian Commercial Corporation (CCC)

Each year, the CCC helps more than 400 Canadian firms make transactions abroad involving a wide range of products from advanced electronics systems to commercial supplies of every description. A good many of these purchases are destined for aid programs of the Canadian International Development Agency (CIDA).

In many cases, the CCC is able to link Canadian suppliers with the purchasing services of foreign governments and international agencies, which are significant markets for Canadian firms. Thousands of bids can be submitted in this way each year. **Contact:** *Canadian Commercial Corporation, 110 O'Connor Street, Ottawa, Ontario, Canada K1A 0S6.*

### FEDERAL BUSINESS DEVELOPMENT BANK

The Federal Business Development Bank, a Crown corporation, offers financial assistance to businesses who cannot find it elsewhere on reasonable terms and conditions. The Bank is directed to give particular consideration to the needs of small businesses.

The Bank's assistance may take the form of loans, loan guarantees, share capital or a combination of these, according to what best suits the special needs of the firm. The loans, normally guaranteed against fixed assets, are extended at market rates. In 1977-78, the Bank authorized nearly 10,000 loans valued at over \$479 million. As for the share-capital program, the Bank usually takes a minority position and agrees to have its shares bought back on suitable terms. The total value of the loans authorized by the Bank amounts to approximately \$1.68 billion.

Most of the Bank's customers spend the money they obtain in purchasing land, buildings or equipment. Others use it to augment their firm's working capital, to start up new firms or for other purposes.

In addition to the financial assistance, the Federal Business Development Bank offers a management consulting, management training and information services to small businesses. **Contact:** *Federal Business Development Bank, 901 Victoria Square, Montreal, Quebec, Canada H3C 3C3.*

# Statistical tables

## REVIEWABLE ACQUISITION CASES

**Table 1 — Outcome or Status**

	1974*	1975	1976	1977	1978 <sup>a</sup>
Reviewable new cases	102	166	171	261	360
Carryover from previous period	-	52	54	65	73
Total of above	102	218	225	326	433
Total resolved	50	164	160	253	327
Allowed	33	116	124	231	282
Disallowed	8	21	19	12	28
Withdrawn	9	27	17	10	17
Carried over to next period	52	54	65	73	106
Allowed cases as percent of resolved (%)	66	71	78	91	86
Value of assets, all cases (\$000,000)	479	1,070	1,069	1,145	4,491

**Table 2 — Country of Control**

	1974*	1975	1976	1977	1978 <sup>a</sup>
Total	102	166	171	261	360
United States	61	116	109	171	243
United Kingdom	21	15	23	40	47
Other Europe	15	27	34	41	52
Belgium	1	2	1	2	1
Denmark	-	-	-	2	1
France	3	6	6	6	5
Germany, West	5	2	10	15	17
Italy	-	2	1	3	1
Liechtenstein	2	2	-	-	1
Luxembourg	-	-	3	-	1
Netherlands	-	5	-	4	8
Norway	-	1	-	-	1
Sweden	-	2	9	2	7
Switzerland	4	5	4	7	9
All other	5	8	5	9	18
Australia	2	1	-	1	-
Bermuda	-	2	1	-	-
Japan	2	2	3	3	7
Others	1	3	1	5	11
Allowed cases as percent of resolved	%	%	%	%	%
United States	65	77	73	91	87
United Kingdom	70	79	82	95	78
Other Europe	71	50	86	90	89
All other	50	30	100	80	80

**Table 3 — Industrial Sector**

	1974*	1975	1976	1977	1978 <sup>a</sup>
Total	102	166	171	261	360
Primary	15	18	15	20	30
Agriculture, fishing and trapping	2	1	2	4	5
Forestry	3	1	-	1	1
Mines, quarries, oil wells	10	16	13	15	24
Manufacturing	47	82	93	108	161
Food, beverage and tobacco	6	11	9	15	15
Rubber, plastic and leather	3	3	4	6	12
Textiles, knitting and clothing	3	3	3	5	4
Wood, furniture and paper	6	10	7	12	14
Printing, publishing, and allied	-	3	1	2	4
Primary metal and metal fabrication	2	9	19	12	20
Machinery and transport equipment	13	17	7	14	27
Electrical products	1	9	11	12	16
Non metallic mineral products	8	3	9	5	8
Petroleum and coal products	-	-	2	1	1
Chemical	3	11	15	10	22
Miscellaneous	2	3	6	14	18
Construction and services	40	66	63	133	169
Construction	2	2	2	3	1
Transportation, communication, utilities	6	6	9	10	11
Trade	18	37	38	72	102
Finance, insurance, real estate	10	14	8	15	19
Community, business, personal services	4	7	6	33	36

\* Provision for review of acquisitions came into force April 9, 1974.

## REVIEWABLE NEW BUSINESS CASES

**Table 4 — Outcome or Status**

	1975	1976	1977	1978 <sup>a</sup>
Reviewable new cases	6	196	328	331
Carryover from previous period	-	6	58	52
Total of above	6	202	386	383
Total resolved	-	144	334	319
Allowed	-	115	297	273
Disallowed	-	9	12	21
Withdrawn	-	20	25	25
Carried over to next period	6	58	52	64
Allowed cases as percent of resolved (%)	-	80	89	86
Planned investment, all cases (\$000,000)	5	324	803	323

**Table 5 — Country of Control**

	1975	1976	1977	1978 <sup>a</sup>
Total	6	196	328	331
United States	4	90	184	193
United Kingdom	-	22	30	26
Other Europe	1	63	85	79
Austria	-	-	-	3
Belgium	-	1	-	1
Denmark	-	5	6	4
Finland	-	1	1	1
France	-	9	17	16
Germany, West	-	22	26	18
Greece	-	-	1	1
Ireland	-	-	-	1
Italy	1	9	10	10
Liechtenstein	-	2	-	-
Luxembourg	-	-	-	1
Monaco	-	-	1	-
Netherlands	-	2	3	1
Norway	-	-	3	3
Spain	-	1	-	2
Sweden	-	3	9	5
Switzerland	-	8	8	12
All other	1	21	29	33
Australia	-	2	3	3
Hong Kong	-	3	3	3
India	-	3	1	1
Japan	-	4	10	6
Others	1	9	12	20
Allowed cases as percent of resolved	%	%	%	%
United States	-	73	88	86
United Kingdom	-	93	82	85
Other Europe	-	80	95	87
All other	-	91	81	79

**Table 6 — Industrial Sector**

	1975	1976	1977	1978 <sup>a</sup>
Total	6	196	328	331
Primary	-	12	22	27
Agriculture, fishing and trapping	-	2	6	2
Forestry	-	-	2	2
Mines, quarries, oil wells	-	10	14	23
Manufacturing	2	67	94	99
Food, beverage and tobacco	-	3	7	6
Rubber, plastic and leather	-	4	5	5
Textiles, knitting and clothing	-	4	9	5
Wood, furniture and paper	1	5	5	6
Printing, publishing and allied	-	-	-	4
Primary metal and metal fabrication	1	15	19	12
Machinery and Transportation equipment	-	6	19	19
Electrical products	-	7	5	7
Non metallic mineral products	-	3	5	6
Petroleum and coal products	-	-	-	-
Chemical	-	6	3	6
Miscellaneous	-	14	17	23
Construction and services	4	117	212	205
Construction	-	4	4	14
Transportation, communication, utilities	1	10	5	11
Trade	1	68	133	102
Finance, insurance, real estate	1	10	16	11
Community, business, personal services	1	25	54	67

\* Provisions for review of new businesses came into force October 15, 1975.

# Book list

## International business and investment

### Venture Capital in Europe Coutarelli, Spiro A.

New York: Praeger Publishers, Inc., 1977  
(Praeger Special Studies in International Economics and Development)

Describes the institutional venture capitalists that are emerging in Europe — the role they play in providing needed long-term finance for small and medium-size business, their structure, investment policies and future possibilities.

### Disappointing Marriage: A Study of the Gains from Merger

Meeks, G.  
Cambridge: Cambridge University Press, 1977

This study of recent mergers in the United Kingdom finds no evidence that efficiency gains typically follow mergers and discusses the implications of that conclusion for state policy on mergers.

### Accounting for Multinational Enterprise

Alhashim, Dhia D. and James W. Robertson  
Indianapolis: Bobbs-Merrill Company, Inc., 1978

Business practitioners and academics examine some international accounting problems stemming from the operations of multinational corporations. The problem areas discussed include the variation in national accounting standards, conflicts in applying national tax rules to multinationals, accounting for exchange rate gains and losses and the role of the accountant in international business operation and ethics. First presented as part of a "Key Issues" lecture and dialogue series sponsored by International Telephone & Telegraph Corporation.

### Human Resource Management in the Multinational Company

Desatnick, R.L. and M.L. Bennett  
New York: Nichols Publishing, 1978

Drawing on techniques and procedures used successfully by a number of companies, the authors provide guidelines to international companies for dealing with complex relationships between local nationals, third country nationals and expatriates.

## Canada: Business, investment, government policy

### Canada's Capital Spending Requirements: Alternatives for the Future

Barrett, Charles A. et al.  
Ottawa: The Conference Board in Canada, 1978

A description of capital spending and savings patterns in Canada over the last three decades and an assessment of capital requirements to 1982 on the basis of four different growth scenarios.

### Industrial Relations in Canada: Towards a Better Understanding

Dodge, William, Leslie Ann Ferrari and Ann E. Jepson (editors)  
Ottawa: The Conference Board in Canada, Compensation Research Centre, June 1978 (Canadian Studies No. 49)

Report of a round table meeting on issues in industrial relations and collective bargaining in Canada.

### Business Investment (Issues and Alternatives — 1978)

Toronto: Ontario Economic Council, 1978

This study of the climate for private capital investment in Ontario, examines the political and economic factors that currently influence the level of investment and the outlook for investment in each major sector of the economy. Comprehensive tables provide historical and forecast data for Ontario and Canada as well as the results of a survey of business opinion about factors affecting investment decisions.

### Profile of Canada: Social and Economic Projections

McCready, Gerald B.  
Georgetown, Ont.: Irwin-Dorsey Limited, 1977

Focussing on ten "central areas of concern" — including population change, energy, education and business — the author describes current trends and outlines possible future directions.

### Marketing Research in Canada: A Status Report

Wong, Kenneth B. and Randall G. Chapman  
Ottawa: The Conference Board in Canada, 1978

A report on the current status of marketing research in Canadian organizations based on a sample survey of companies.

## Uranium, Nuclear Power and Canada-U.S. Energy Relations

McIntyre, Hugh C.  
Montreal: C.D. Howe Research Institute, 1978  
(Canadian American Committee, Report No. 44)

A review of the supply-demand outlook for uranium in North America, the potential for sale of Canadian uranium to the United States and possible areas for Canada-U.S. co-operation.

### Atlantic Canada Today

Halifax, N.S.: Atlantic Provinces Economic Council, 1977

Information about the present resources, industries and development programs in Atlantic Canada and some of the likely future developments in that region.

### Canadian Directorship Practices: A Critical Self-Examination

Peterson, Susan assisted by Morris Heath  
Ottawa: The Conference Board in Canada, 1977 (December)

Examines in detail the opinions of 50 members of the business community on the subject of corporate boards of directors in Canada. Subjects covered include selection criteria, role of CEO's, effectiveness and independence of boards, multiple directorships, frequency of meetings, retirement, special interest members and the role of directors of foreign-controlled subsidiaries.

### The Canadian North

Hodgins, Bruce W. et al.  
Scarborough (Ont.) and Englewood Cliffs (N.J.): Prentice-Hall, 1977

Papers and speeches on the economic and ecological future of the area.

### Canada Has a Future

Drouin, Marie-Josée and B. Bruce-Biggs  
Toronto: McClelland and Stewart Limited, 1978

An analysis of medium-term social and economic prospects, based on research by The Hudson Institute of Canada.

### Canada's Trade Performance — 1960-1977 Volume 1: General Developments

Policy Analysis Branch, Department of Industry, Trade and Commerce  
Ottawa: Department of Industry, Trade and Commerce, October 1978

This report examines the major developments that occurred in the composition and direction of Canada's external trade during a period of unprecedented growth.

### Articles in previous issues:

- Vol. 1, No. 1** Capital needs in Canadian mining, smelting and refining  
Personal notes on the review process  
Historical perspective on acquisition trends  
Major Canadian tax incentives to investment  
Good corporate citizenship — a view from experience
- Vol. 1, No. 2** The giant Canada-U.S. pipeline — the Alaska Highway project  
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Regional economic development — a Canadian priority  
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Rapeseed processing: a growth and glamour industry  
The Haley-Bendix joint venture in Quebec  
Business-government joint ventures in Canada  
Mineral exploration in Canada: the needs and the prospects
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When does a licensing agreement in Canada make sense?  
Tax considerations for investment in Canada  
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